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ABSTRACT

This report reviews and analyzes the effects advertising has on consumer choice, national values, and life styles. It is intended to aid consumer educators and others in related fields. The report's focus is on two central issues: consumer sovereignty and patterns of personal, industrial, and national resource allocation. The first of four chapters explores the concept of consumer sovereignty and the conditions under which it is obtained. Also there is an attempt to clarify the manner in which advertising can facilitate or hinder the functioning of the private market system in the interests of society as a whole. In chapter 2 there is an examination of the indirect effects on consumers that advertising has been seen to have by causing shifts in various patterns of industrial, family, and national resource allocations. Chapter 3 discusses broader social implications of advertising as it impacts especially through television and corporate-sponsored advertising on our social and political lives. The final chapter highlights major findings of the previous chapters as they pertain to the possible content of consumer education programs. A bibliography is included. (CSS)

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IMPACT OF ADVERTISING IMPLICATIONS FOR CONSUMER EDUCATION

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U.S. Office of Education

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INTRODUCTION

This report has been prepared in response to the Office of Consumer Education's (OCE) request for a review and analysis of the effects advertising has on consumer choice and, secondarily, the effects advertising has on national values and life-styles. The OCE staff believes that it can help meet the professional and curricular needs of consumer educators, as well as other professionals in related fields, by having and distributing an analytical review of ways in which modern advertising has been seen to affect both the economic and ideological structures of our market system and on social choice.

By initially focusing on two central issues -- consumer sovereignty and patterns of personal, industrial and national resource allocation -- we hope to present a wider view of consumer choice than is expressed in some consumer writings. Here, the emphasis is not only on advertising's influence on personal choice between various market goods and levels of savings but also, and perhaps more importantly, on advertising's influence on choice -- both personal and national -- between market and non-market sources of satisfaction, various levels of work and leisure, and present consumption and social investments. Later in the report, additional issues of major public concern have been treated to the extent resources and space allow. The rather wide-ranging materials covered point up the extremely important issues raised by the presence of advertising in our society -- issues that we believe could be imaginatively incorporated into consumer education materials.

It is important to appreciate that the analytic basis for this study is conventional, generally accepted welfare economics, which explains rigorously the conditions under which markets can optimally serve the society as a whole. This approach implies the value judgment, which we accept, that the purpose of economic activity is to serve the interests of the people of the society. Therefore, the finding, in this analytic framework, that advertising has many adverse consequences -- in addition to some benefits -- indicates its inadequacies as a part of a free market system. That is, advertising is not evaluated primarily in terms of whether it is desirable in a non-market society or from the point of view of sociological, ethical or even, primarily, political conisderations. Although all these are touched on, the basic analysis involves the application of rigorous conventional economic thinking.

The PIE-C effort was limited in scope, and, hence, this report does not reflect original research but rather draws on the published literature. It attempts to clarify major issues by reviewing and appraising the recent thinking of economists, marketing executives and researchers, and more general surveyors of the contemporary social system, concerning the impacts of advertising on consumer sovereignty, patterns of resource allocation and national values. Because of limitations on the scope of the research effort, the viewpoints of several spokespeople on the issue have received only cursory treatment, but the extensive bibliography will permit readers to explore ideas further in the original sources.

PREFACE

This report is presented in partial fulfillment of Purchase Order #P00770607 between the Office of Consumer Education (OCE) and the Public Interest Economics Center (PIE-C). The question of economically sound treatment of advertising as a form of and as a subject for consumer education is a matter of major concern in the public interest and, consequently, falls within the mandate of PIE-C as an area of research.

In this report the authors summarize much of the existing academic and journalistic literature on advertising and its effects on consumer sovereignty and national values. Because consumer sovereignty is a pre-condition for the efficient operation of the market system so as to serve the interest of consumers and of society as a whole, the analysis casts light not only on considerations of consumer education, but also on the relationship between advertising as it is currently practiced and the basic rationalization of the private market mechanism.

In preparation of this report the authors have had the benefit of extensive interaction with Dr. Dustin Wilson, Jr., Director of OCE and Dr. Mary Beth Minden of his staff. In addition, a draft of the final report was reviewed by Professor Kathleen Browne Ittig of University of Buffalo (New York) and Professor Dennis C. Pirages of University of Maryland. Their valuable comments were taken into account in preparation of the report in its final form.

Chapters I and III were originally prepared by Garth Trinkl, Chapter II by Zena Cook, of PIE-C; the whole manuscript was reviewed several times by all three authors, so it is, in the end, the product of a truly joint effort. The whole was edited by Barbara Schuyler to assure that it communicates clearly with the reader unacquainted with economic theory.

Despite the advice and assistance of the reviewers and the OCE staff, PIE-C and the authors are, of course, solely responsible for its content.

Allen R. Ferguson
President of PIE-C

It is our belief that several of the recent attempts to have academicians and others join in debate or round-table fora to discuss advertising issues, have not taken full account of new insights into and analyses of basic issues of information content, complexity and veracity, of consumer sovereignty and of advertising's influence on individual life-style and aggregate cultural determination (including the meaning of work and leisure), macro-issues of present consumption versus saving and corporate and public investment, and, finally, the nature of the learning process with the visual and audio media permeating our homes and cities. We have undertaken to fill this gap at least to some degree.

In the first chapter we attempt to develop briefly the concept of consumer sovereignty and the conditions under which it is obtained. We further attempt to clarify the manner in which advertising can facilitate or hinder the functioning of the private market system in the interests of society as a whole.

In the second chapter we examine the indirect effects which advertising has been seen to have on consumers by causing shifts in various patterns of industrial (inter and intra), family and national resource allocation.

The third chapter discusses broader social implications of advertising as it impacts, especially through television and corporate sponsored advertising, on our social and political life.

The final chapter highlights the major findings of the previous chapters as they pertain to the possible content of consumer education programs. A bibliography of some length which lists works used in this report, as well as a few additional words included for their relevance, is attached. It is hoped that it, in itself, will be a useful resource to educators in their curricular development.

I. ADVERTISING AND DEFICIENCIES OF INFORMATION IN CONSUMER DECISION MAKING.

A. Introduction

In order for a market to provide for the maximum well-being of the people of the society it serves, consumers must be well informed. In the absence of adequate information consumers can be expected to choose unwisely among the alternatives available to them; that is, they can be expected to fail to choose those goods and services, jobs, levels of savings and of expenditures, intensity of work and amount and use of leisure that best meet their individual needs and desires, and those of the society as a whole.

This chapter is divided into four main sections. In the first, the concept of the market system functioning to serve the material interests of the population is summarized as it has been developed since the second quarter of this century. This concept and its conditions comprise the theoretical justification of present business/consumer relations. An evaluation of the relationship of advertising and commercial media to the set of assumptions underlying the theory of the market economy has been found to be a methodological nightmare, and yet is essential to the legitimacy of present economic arrangements and their social and cultural ramifications.

In the second section, we deal with the information problem of the modern consumer who is faced with an increasing number of decisions regarding technologically and financially complex goods and services. We show how the intellectual involvement necessary for wise personal resource allocation is constrained by the technical nature of present day commercial information, information obsolescence, and the lack of easily comparable information available either through advertising or at point of sale. This section includes a listing of the elements commercial information should contain to serve consumer needs adequately, and a brief statement about the positive roles advertising can play in serving a market function.

The third section discusses the scope and nature of advertising content and describes the informational, persuasive and entertainment instrumentalities involved in modern advertising, especially magazine and television. It supplies several viewpoints on what marketers and advertisers think this role of advertising is, and what academic and journalistic critics see occurring with present advertising forms.

A final section will discuss alternative sources of information available to the consumer, and will briefly discuss the issue of corrective advertising and other reforms which seek to provide consumers with broader information.

B. Advertising and Consumer Sovereignty

1. The Prerequisites of Consumer Sovereignty

We begin with the value judgment that the only legitimate function of the economy, especially in a free society, is to serve the interests of the people of that society. Since everyone is a consumer, it is not far afield to assert that the people cannot be well served by economic activity unless consumers' perceived needs and wants are met to the maximum extent possible.

The central objective of welfare economics is to ascertain the conditions under which this can be accomplished. Specifically, it is to determine how a given endowment of material resources (human resources, physical capital and natural resources) available to a society can be utilized to provide the maximum social benefit. The basic theoretical justification for the private enterprise system -- or capitalism or the market economy -- is that it can and does, without regard to the motivation and morals of the participants, produce close to the maximum material well-being possible for the members of society as perceived by those members. The conditions under which the market system could theoretically do that are very restricted and rigid, and, to the extent that they are not fulfilled in reality, the market system falls short of achieving its legitimate social and econmic functions, as viewed in welfare economics. Deficiencies may not impair, and may even facilitate, serving the ends of particular individuals or groups, but to the extent that the conditions are not fulfilled, the aggregate well-being of members of the society will not be maximized.

The market system can be viewed as an aggregate mechanism correlating supply and demand in many interrelated markets to create and distribute goods and services. The conditions under which the market mechanism could and would produce the maximum material well-being for the members of society as a whole have been theoretically developed, largely in this century, by a progression of economists. They range from A. C. Pigou in *Welfare Economics*[1] to Francis Baton in *The Question of Government Spending: Public Needs and Private Wants*.[2] Some socialist economists, Abba P. Lerner[3] and Oskar Lange[4], for example, have argued that socialist planning should approximate the patterns that would obtain in a properly functioning market economy. The proposition that the welfare conditions are requisites for a socially optimal functioning of the market system is now widely accepted by economists of all political persuasions.

Economists differ widely, of course, on how far the real world differs from these conditions, how serious those deviations are, the extent to which they could or should be eliminated and, consequently, on political orientation and prescription.

2. Conditions for Optimal Market Performances

Among the conditions for optimal market performance, those that are most relevant for present purposes are the following:

°Consumers must act rationally on the basis of their own preferences, i.e., wants;

°Consumers must be fully informed as to the choices available to them;

°Goods and services must be provided and distributed under conditions of competition; and

°Income and wealth must be initially distributed in a socially desirable (or at least satisfactory) way.

The other conditions for "perfect markets" are not substantially affected by advertising and related promotional activities.

Before proceeding, it may be worthwhile to explain briefly some salient features of these conditions. Obviously, if consumers were to act irrationally, they could not be counted on to act in their own best interest. What is more important here, however, is that they must act on the basis of their own preferences, i.e., they must act in pursuit of their own wants. Whereas society as a whole influences and perhaps largely determines the preferences and wants of individuals, a market economy cannot operate in the interest of the population as a whole if consumers' economic decisions are made on the basis of preferences dictated, created, or even influenced by producers. That is, producers must react to, not determine, consumer wants. However preferences are established, if consumers lack adequate information about their choices, they cannot choose wisely.

Only under conditions of competition must producers be entirely responsive to the demands of consumers in the most efficient ways, i.e., in the ways that minimize the utilization of resources per unit of product produced.

Since it is the distribution of wealth and income that determines the ability of individuals to have their material wants satisfied by the market, inequitable distribution of wealth and income structure will produce inequitable distribution of goods and services.

Under these conditions (and the others we have ignored) the market mechanism would be expected to produce the highest level of material well-being or "welfare" possible. To explain the reasons why these are logical prerequisites of a properly functioning market system or to describe the other necessary conditions of optimality would require an excessive digression. Two points must suffice here: First, that there is wide consensus among those who have seriously examined the problem, and second, perhaps more interesting, that recognizing these conditions permits one to draw important inferences for evaluating advertising as it is actually practiced.

3. Inferences for Evaluation of Advertising

°First, and most important for present purposes, to the extent that advertising and related promotional activities increase the degree to which these four conditions are fulfilled, they are economically and socially defensible on the basis of the standard intellectual justification of the private enterprise system; to the extent that they impair the fulfillment of those conditions, they are economically and socially unjustified in those same terms.

°Second, it is central to note that these conditions imply that the consumer -- not the producer -- be sovereign and, in part to assure consumer sovereignty, that producers be organized in competitive industries.

It is the burden of the rest of this paper to evaluate advertising by examining whether, how and to what extent it facilitates the realization of these market conditions. This method of judging advertising is based on the theory which underlies the intellectual justification of the market system. Consequently, in the course of appraising advertising, we also examine the extent to which the market system's intellectual foundations are jeopardized by the existence of advertising as it is practiced.

C. The Informational Problem of the Modern Consumer

Consumers are today faced with a very serious information problem: Obtaining and understanding reliable information about the great multitude of commodities and services they consume is at best difficult, and at worst, impossible.

Prior to the industrial and electronic revolutions of this century, consumer transactions were overwhelmingly conducted at the point of sale. Through word of mouth, rudimentary printed advertising, and examination of the product at the point of sale, the consumer could determine the availability, price and quality of the product, and could call upon his previous experience to help him to evaluate the utility of the purchase given its cost. At this level of economic transaction, though the consumer had to be aware of producer and seller misrepresentation, the consumer could in most cases satisfactorily evaluate available information regarding a transaction.

1. Problems with Increased Technology

As many economists and other writers have noted, today's consumer information problem -- problems of both information deficiency and commercial "misinformation" -- are the results of our high level of development (particularly in technological production and media technology) and our affluence. According to Richard H. Holten,

> The problem of consumer information is in large part a consequence of our rapidly rising standard of living. I doubt that we could solve the consumer information problem in any satisfactory sense unless we were to resort to a most unsatisfactory alternative: Namely, an economy so static that consumers are never faced with new goods and services . . . .[5]

With economic development and sophisticated advertising, packaging and marketing techniques, the traditional practice of forming intuitive judgments of quality, workmanship and seller integrity at the point of sale is replaced by complex pricing and economic arrangements whereby information regarding availability, price, grading, credit terms, and guarantees and warranties is commercially subsidized and entrusted to professional marketers. These professionals are often not under the same constraints as the independent producer to provide factual and useful information, because their income or corporate standing is predicated on volume sold and not on consumer satisfaction.

2. Constraints on Consumer Information Use

Since information of great quantity and technical sophistication is often required to explain technologically and financially complex goods and services, and because the consumer often has enough discretionary income for many purchases, the consumer is in many instances forced to allocate his or her analytic and time resources among various consumer decisions, and thus to choose irrationally. He or she often lacks the patience or time to absorb and analyze any large amounts of the increasingly technical information which either unintentionally or intentionally surrounds many products and services. In their theoretical study, "Consumer Decisions and Information Use," Chaffee and McLeod[6] found that in consumer decision making, searching for information is in the majority of cases minimized because of the intellectual and time costs involved. They quote findings, that even for costly and heavily advertised products such as major appliances, auto accessories, or furniture, only half of the sample reported seeking out comparative information.[7] In other cases information search is also discouraged when valuable product information is found not to be available at the point of sale, being available only "upon request" from the manufacturing or service firm.

As advertising replaces useful information with non-informational elements, the processing of factual information is delayed and often ignored. While it is argued by some advertising spokesmen, as we shall see, that consumers do not want more information in advertising because it cannot be processed, this is not the case, according to the Federal Trade Commission, Congress (the passage of the Magnuson-Moss Act, requiring producers to provide full warranty information), and such publications as Consumer Newsweekly.[8]

As Holten has pointed out, in our present society one's past experience and stores of information are good for evaluating products and services frequently purchased whose rate of technological change is low relative to the frequency of purchase. However, this experiential knowledge is no longer adequate for items less frequently purchased yet with a high rate of technological change.[9] It is assumed that the first category includes items such as those from a grocery store while the second are such items as automobiles, tires, major appliances, and insurance and loan policies.

The problems of informational quantity and complexity are compounded by informational obsolesence with rapidly changing brands, technologies and social environments. These problems, according to Holten, can be expected to worsen rather than improve as we continue to move into a service economy marked by high technology products and a pluralism of service arrangements. In an excellent article, Alan Gartner discusses in greater detail consumer informational issues in a service economy.[10]

3. Commercial Information

The full set of consumer information requirements has been listed as follows by Maynes.

- Information regarding existence of relevant:
  - Products
  - Varieties (brand/models)
  - Accessible retailers
- An understanding of how markets work and of optional purchase procedures.
- General product information: what characteristics are desirable and in what degree.
- Specific product information: the extent to which particular varieties possess specific characteristics desired, in other words, the quality of each variety.
- Price: adjusted to take account of auxiliary services/components that are "included."[11]

This set of information we call "commercial information." As McKiel[2] points out, complete commercial information has itself become costly to produce and disseminate, and -- especially in terms of time -- costly for consumers to obtain. Because this information is now often produced and disseminated separately from products in the forms of advertising and other promotion in many cases it has been made increasingly selective as to serve the interests of producers rather than consumers. With the overload of information available from various sources and low consumer self-esteem about consumer skills many consumers tend to use the information that is most readily available to them, typically the selective, biased information provided by the seller rather than complete information requiring intellectual and time resources.

4. Positive Informative Role of Advertising

Advertising can of course be a very useful source of commercial information and is often of great value to consumers. To see this one need only consider the effect on some consumers of the lack of advertising. For example, until recently, there was little advertising of prices charged by professionals such as doctors and attorneys. Even advertising as to types of service available was proscribed by professional "ethics." Consumers had no effective way of readily obtaining information that would permit rational choice among possible professional services. Further, a positive information role is often played by advertising in local newspapers and magazines and over local radio, in classified advertising and in other professional service advertising especially when price information is included.

However, as we shall see, advertising often contains components other than or in addition to accurate commercial information -- components of persuasion, obfuscation, misinformation and entertainment, which frustrate information search and influence consumers to act irrationally.

D. The Scope and Nature of Advertising Today

As has been discussed, advertising is justified only to the extent that it provides objective commercial information. In this section we turn to a survey of viewpoints on advertising content as it is often encountered today, that is, a content containing more stimulation, obfuscation, persuasion, and entertainment than factual information aiding the consumer toward rational decision making and allocation of personal resources.

1. Direct Dollar Costs of Advertising

Current total expenditures on advertising have reached $36 billion a year. This amount represents 100 times the total budget of the U.N. and almost approaches the $42 billion spent on private/governmental research and development in 1977. Approximately 1,800 daily and more than 7,500 weekly newspapers absorb nearly one-third of that amount. Television receives 20 percent of the total, and its share keeps rising, gradually reducing the share of the older media. Radio now gets less than 7 percent of the total advertising expenditures and magazines, less than 6 percent, with outdoor, direct mail, and other outlets accounting for the rest.[13]

While Bartlett finds that 2% of the GNP went into the production and dissemination of advertising,[14] Scherer estimates that about one-quarter of advertising expenditures (in 1966 when he conducted his study) or .5% of the GNP "went into messages which served little function but to mislead the consumer or cancel out rival messages," and that another .5% of GNP was spent on other forms of dysfunctional marketing and product style changes "for a total annual expenditure on wasteful promotion that could not be less than one percent of GNP."[15]

According to advertising executive Novik, "Agencies and advertisers in 1977 bought $5.7 billion worth of TV time and spent another half billion producing commercials to fill that time. A good chunk of this vast sum was wasted, unintentionally of course . . ."[16] Further, the staff of the late Senator Hart's antitrust committee estimated moreover, that deceptive packaging and promotion in the food industry alone causes consumers "to lose $14 billion a year."[17]

These illustrations demonstrate how advertising and other promotional activities of business far exceed their role of providing consumers with useful commercial information that is economically justified.

2. Demand Management

John K. Galbraith, in his writings in the late 40's and 50's,[18] identified the role that industrial "demand management" plays in determining levels of consumer expenditures and savings. It is his view that contrary to business claims of a well-functioning market system that the American economic system produces goods and services in response to consumer demand, business seeks to control the range of choices available to the consumer and more importantly, the level of consumption. Aggregate failure to consume all that is produced results in loss of profit and in unemployment, events to be avoided by government policy.

It is Galbraith's thesis that government/business policy since the depression has been aimed at increasing aggregate national growth and increasing corporate profit through artificially stimulating consumption through government suasion, corporate advertising and the broadcasting enterprises. In his view, American consumption practices and patterns are neither individually nor rationally chosen, but are the result of corporate economic and behavioral management of a mass society. Society has become trapped in patterns of consumption determined not by the independent preferences of consumers but determined "from above." In an interesting article, Kenneth E. Boulding traces "demand management" year by year from 1929 to 1968 and relates corporate-determined consumer expenditure levels to trends in military spending and private domestic investment.[19]

Central to the thinking of both of these economists is the idea that America has passed from its liberal economic adolescence where some sectors of the consuming public exercised sovereignty in the marketplace (as they did in the town meeting), to a more mature economy marked by corporate and monopoly determination, in which consumer (and hence, citizen) self-determination is lost in the development of increased "efficiency" and bureaucratization. Individual preferences for such products and services as unprocessed foods and urban transit systems are seen to be subordinated to the corporate requirements of the food and automotive industries. This view underlies the writings of Marxist economists such as A. P. Lerner[20] and H. Gintis.[21] The former seeks restitution of consumer sovereignty through enforced pricing at the margin and the individual redefinition of consumer needs, while the latter feels that the focus of regained sovereignty must lie with a larger unit than the individual consumer and take into account "social sovereignty."

In his article on "Advertising, Economics, and Individualism,"[22] Randall Bartlett traces the ideas of consumer sovereignty and autonomous preference from the economic concepts of marginal analyses and individual utility functions, and clarifies the roles that uncertainty and social influence play on individuals within social frameworks. In challenging the validity of the notion of autonomous preference, he cites recent work done by Chicago economists. These writings see individuals or groups of individuals not as purchasing products solely for material ends, but rather as purchasing "bundles of characteristics," which serve such needs as "prestige," "fashion," and "independence of thought." The characteristics which are sought are necessarily socially determined. Such determination is in large part a function of broadcast advertising and other information provided by sellers. According to Bartlett's analysis, individuals do not make their choices in response to their own internally based preferences, but rather learn from external sources how other people respond to products. Bartlett continues,

> At its heart, the controversy is not really over the measurable impact of advertising, but concerns the degree of independence present in individual choice and, thus, concerns the normative basis of the defense of market economics as a source of human liberty. Any admission of an effective impact of advertising on consumer choice is in effect a denial of that comfortable ideological base . . . . If utility itself is influencable, then the most basic normative propositions of welfare economics cease to have any content; they are simply not applicable to a situation where a satisfied want has been externally and internally created.[23]

In short, Bartlett -- like Galbraith -- is pointing out that the autonomous preference necessary for a free enterprise economy is inconsistent with the requirements of smooth industrial functioning and successful advertising. The intellectual foundation of the "free enterprise" or market system depends on freedom from influence over consumer preference and choice, and advertising to create ever greater markets tends to destroy that freedom.

3. Conflicting Views of the Role of Advertising

Whereas we have talked about the requirements of full commercial information in the consumer decision making process, here we offer a taxonomy of advertising as it is commonly encountered, and discuss various viewpoints concerning advertising content and function. Very briefly, most forms of advertising consist of selective commercial information mixed with or replaced by one or more of the following elements:

- Persuasion
- Entertainment

- Obfuscation

- Deception or misinformation

How these non- or counter-informative influences bear upon the requirements of "consumer sovereignty" as developed above is of major importance to this report.

While all individual preferences are to some degree socially determined, for advertising to perform a persuasive function is clearly contrary to autonomous consumer preference, as described above. Likewise to the extent that advertising contains entertaining or obfuscating elements, the second requisite of consumer sovereignty -- rational choice -- is intentionally weakened. Various degrees of deception and misinformation (often difficult to discern) clearly hinder the consumer from obtaining full commercial information concerning purchase and savings opportunities. It is this last category which receives the most attention of the National Advertising Review Board (established by the trade in an attempt to police itself) and the Federal Trade Commission, whereas the other categories just as seriously infringe upon the theoretical justification of present market arrangements. These first three categories, strongly justified by advertisers as we shall see, are designed to work against the autonomy of preference, the consumer's ability to obtain necessary information rationally, thus subordinating the consumer's interest to that of the producer.

a. Information or stimulation

A clear example of conflicting opinion over the function of advertising was the exchange between Representative Benjamin S. Rosenthal of New York and Thomas Dillon, Chairman, Batton, Barton, Dustine, and Osborn, Inc., at the American Enterprise Institute Round Table Discussion in 1976. According to Rep. Rosenthal,

> Advertising has a mission. The time has come to realize that technological growth and the development of monopoly in our society gives advertising a particular responsibility. Its responsibility ought to be to provide information about a product . . . . I think advertising ought to give some indication of the price and quality of the product.[24]

According to Dillon,

> Advertising consists of relatively small amounts of information, [yet] it is grossly unfair to charge advertising with offering no information when the process that advertising leads you into offers quite a lot of information.[25]

In this latter view the function of advertising content is seen to be not the providing of useful and objective information, but is rather admitted to be a source of motivation or stimulation which ostensibly leads the consumer toward obtaining information available elsewhere, presumably at the point of sale.

Advertising and point of sale promotion are, according to management theorist Peter Drucker, designed to allow a product to sell itself by providing the consumer with sufficient information to allow him to decide rationally whether something suits his/her needs or desires. Drucker views the consumer movement of the past decade as the "shame of marketing" and believes that

> [D]espite the emphasis on marketing and the marketing approach, marketing is still rhetoric rather than reality in far too many businesses . . . . [Consumerism] demands that business define its goal as the satisfaction of consumer needs . . . . The aim of marketing is to know and understand the consumer so well that the product or service fits him and sells itself.[26]

But we find that because of the requirements of "demand management," discussed above, advertising must stimulate consumption through non-rational stimulation and persuasion, or obfuscation of product quality or price, and through brand differentiation or promotional techniques designed to encourage compulsive purchasing habits. Whereas advertising should service consumer informational needs, in reality, through high advertising expenditures, persuasive techniques, and saturation, advertising serves predominantly the benefit of producers and suppliers.

b. Persuasion

The attitude of advertising proponents, as expressed in trade publications, such as Advertising Age and Printer's Ink, is that advertising is the place for techniques of persuasion and stimulation with as little commercial information as possible and that through amusement and entertainment, these techniques will, to some degree, be masked or forgiven. There is generally little attempt on the part of advertisers to hide the fact that they see advertising as the place for mild dissimulation and for techniques aimed at creating new needs and wants. Further, advertisers readily spend huge sums to support corporate and academic marketing research, which employ social and behavioral research methodology to define new market opportunities and appropriate commercial appeals.

Many marketing and advertising justifications of non-informative, persuasive and entertaining advertising are in some ways exemplified by the thoughts of Sid Bernstein writing in Advertising Age (January 2, 1978),

> Advertising is the one area of good tidings, pleasant images and hopeful, encouraging thoughts and actions in a bleak, unfriendly, disaster-filled world, and in that capacity alone -- regardless of its more familiar, more pedestrian roles -- it serves a useful purpose in society.[27]

It is assumed that among its more pedestrian roles is the providing of commercial information concerning quality, availability and price. The mild cynicism of the professional marketer and advertiser is expressed later in the same editorial:

> In any country you can think of, radio and television commercials by and large aim primarily at amusement in one form or another as the attention getter, the device that gets the audience into the tent, where the real sales pitch can subsequently be delivered to the happy gang.[28]

This quote clearly expresses the eclipse of advertising's theoretical information function by persuasion techniques and entertainment in radio and television advertising, which accounts for about $10 billion yearly. As if to warn of ominous signs ahead for the advertising industry which has found itself serving social and corporate industrial functions rather than an economic function, Bernstein concludes his report for the new year by reporting on

> . . . a growing trend in Europe toward selling non-branded products labelled simply 'Sugar' or 'Flour' in supermarkets, presumably without benefit of amusing selling copy or any entrancing appeal beyond low price.[29]

In surveying the large amounts of academic material which touch on advertising content, one finds a clear division between those who justify persuasion and entertainment instrumentalities as part of the harmless intrinsic nature of advertising, and those strongly critical of what they see in some cases as the dangerous application of technological and behavioral technique in encouraging consumers to seek status, sexual prowess, or alleviation from fears or unhappiness through commercial products or services.

Two theoretical sources which deal exclusively with the issue of persuasion are Issues in Advertising: The Economics of Persuasion, edited by David G. Tuerck of the American Enterprise Institute[30] and Persuasion: Theory and Practice of Manipulative Communication by George Gordon.[31] The former includes a representative essay by Ralph K. Winter, Jr. entitled "Advertising and Legal Theory" which claims that any persuasion in advertising is a very limited tool, and is no different from other forms of persuasion encountered everyday:

> The point is that virtually every aspect of our lives is affected by attempts at persuasion by others and that the the techniques of advertising are common to every form of persuasion. Either we believe that our citizens are capable of independent and balanced judgment or we do not. If, in fact, consumers are endlessly manipulated by advertising, then the same consumers are no better able to avoid manipulation in their political judgments.[32]

In allowing such an argument, one is granting that the function of advertising is to serve the seller's interest and not the consumers', and that marketing is an attempt to lead consumers to make decisions contrary to their own or society's best interest.

According to Robert Pitofsky, in the same collection of essays, it is not true that consumers are able to exercise independent judgment given the nebulous nature of price and quality assertions.

> How can a consumer determine that a claim that a product has "twice as much vitamin C" as a competing brand (or almost any other nutritional claim) is untrue; how can a consumer reliably conclude that a particular disinfectant "helps prevent colds and flu" is deceptive. Even price claims can be difficult to evaluate -- when the claim is "10 percent off manufacturer's list" or "lowest price in town." The more complicated the technology of the product--automobiles, television sets, over-the-counter drugs, etc. -- the more unlikely that consumers will be in a position to measure the validity of product claims relating to that technology . . . . Consumer behavior studies show that consumers frequently believe and are influenced in their purchases by the content of false advertising claims. For example, the Federal Trade Commission recently found that Warner-Lambert's false claim that Listerine was effective in preventing colds and ameliorating cold symptons was believed by an average of 53.8 percent of users and non-users exposed to the claim during the period 1963-1971.[33]

c. Symbolic needs

In his philosophical article on "The Morality [?] of Advertising," Theodore Levitt argues at length the position that persuasion is central to advertising and that advertising should aim not at providing commercial information but rather the subjective qualities of consolation and pleasure. To Levitt,

> Embellishment and distortion are among advertising's legitimate and socially desirable purposes; and that illegitimacy in advertising consists only in falsification with larcenous intent . . . . [C]ommerce, it can be said without apology, takes essentially the same liberties with reality and literality as the artist, except that commerce calls its creations advertising . . . . or packaging. As with art, the purpose is to influence the audience by creating illusions, symbols, and implications that promise more than pure functionality.[34]

According to this argument, man should not be concerned with rational decision making or economic hardship caused by market dysfunctions in industrial development. Well-being is not to be sought through applied reform and sociality, but rather through the consumption of products and services, the advertising of which promises "greater whiteness, beauty, youthfulness, sexual prowess, togetherness, etc." In this view, rationality in the service of economic efficiency and welfare is completely subordinated to non-rationality in the service of man's inner needs. As Galbraith realized in the 50's, "advertising believability" regarding many of its claims is not important and that

> [F]ailure to win belief does not impair the effectiveness of the management of demand for consumer products. Management involves the creation of a compelling image of the product in the mind of the consumer . . . . for building this image, palpable fantasy may be more valuable than circumstantial evidence.[35]

Levitt's central thesis that advertisers and artists work similarly to probe and console social and psychological discontent, a thesis that follows facilely in the wake of a decade and half of behavioral and marketing research expansion, has tremendous ramifications for cultural and spiritual life in advanced industrial and electronic societies (especially North America). Such ramifications are now being drawn by such speculative writers as Wilson Bryan Key, Jerry Mander, and William Irwin Thompson.[36] These writers in various ways see advertising -- by drawing upon vast stores of behavioral research and artistic talent, and having secured the legitimacy and belief of certain segments of the population -- as filling the symbolic void of traditional art and religion, while serving industrial and corporate ends. While some of their ideas will be presented in the third part of this paper, Key's Subliminal Seduction needs to be briefly discussed as a rejoinder to Levitt's ideas on advertising content.

Like Levitt, Key holds that much advertising, especially magazine and television, is not intended to present useful commercial information. Rather he sees advertising content as highly technical persuasion presented through a pleasing or entertaining media. Whereas Levitt sees persuasion and entertainment as mild distortion and embellishments serving positive psychological and social functions accepted or forgiven by consumers, Key presents cases of such persuasion and entertainment used to mask more subtle behavioral engineering and exploitation on a non-rational level. Whereas Key's findings are directed against only a small segment of advertising -- that is non-informative national, high-technology color-print and video advertising -- these forms represent the pinnacle of the advertising craft, a pinnacle involving great expenditures of economic resources and human talents.

Very briefly, it is Key's findings that high technology and artistic technique are being used to inundate consumers with certain stimuli which play upon man's basic fears and uncertainties, and that even soft drink and cigarette advertisements have been so composed and treated with "psychographics" to foster in the mind of the adolescent or adult viewer the desire for basic sexual gratifications, a desire which is often sublimated through such oral activities as drinking or smoking.[37] According to Key, the complex fears and emotions stimulated by this technical manipulation seek satisfaction or consolation in consumption of products (whether the object is pictured in the advertisement) rather than in other social practices or customs, and thus a materialistic ethic is propagated.[38]

Behavioral manipulation through the subconscious appears so bizarre and conspiratorial that one is tempted to dismiss the very notion as wild or not validy substantiated. Though admittedly Key's thesis focuses primarily on high technology magazine advertising, this advertising content is being disseminated throughout North America and the world. The issue has attracted the concern of members of the advertising profession concerned with professional ethics,[39] and deserves the consideration of consumer educators, academicians, and humanists and theologians as well.

d. Non-informational functions

As we have shown repeatedly, the provision of useful information for rational decision making -- essential if the market economy is to serve consumer interests -- is only one function of advertising and that tremendous resources are spent on advertising functions which serve non-informative functions. In his article, "Information and Goodwill Advertising," Kenneth D. Boyer[40] attempts to draw an analytic and testable distinction between advertising which contains commercial information and advertising which has as its purpose the encouragement of brand loyalty. Such "goodwill advertising" is often almost completely non-informative announcing little except that the product or service exists, groundless claims of "superiority" and, rarely, comparative information on price. As Gordon and Lee point out,[41] national television and magazine advertising rarely features price information, whereas it is often found in local newspapers, local radio, and direct mail campaigns. There would appear to be a large schism in the vast resources spent on advertising between local and direct mail advertising which provide significant amount of valuable information, and, expensive high-technology national advertising which contains little commercial informative value. These resources could serve a "goodwill" function of encouraging consumer loyalty, as Boyer suggests, but could just as well support more subtle psychological and persuasive ends. Or they could serve industrial ends, the argument being that huge advertising expenditures are used to lift products out of price competition, as discussed in Chapter II. Furthermore, according to Gordon and Lee,

> [An] interesting suggestion to explain the high advertising expenditures of some large corporations is that the management of those corporations advertise to fulfill their need for security. Top executives want assurance that their company will continue to grow. Multi-million dollar advertising budgets reflect this security need rather than the calculated estimate of greater profit. An advertising man expressed the unorthodox view that if the United States Steel Corporation were to discontinue its advertising it is unlikely that even one less ton of steel would be sold.[42]

Because of such benefits as tax deductions for advertising purposes, it is not unlikely that large corporations advertise not to transmit commercial information to facilitate increased sales, but either to build "goodwill" through non-essential product/service differentiation or to foster the psychological security that a company or firm is so superior that its market share claimed through monopoly power is beyond competitive challenge.

This section has pointed out many of the conflicting attitudes about the role of advertising, focusing on it as a form of persuasion, entertainment, obfuscation and/or misinformation. The next section discusses alternative sources of information for the consumer.

E. Alternative Sources of Information

Because of the failure of marketing in many cases to provide adequate information to allow the consumer to make rational decisions, the consumer is often forced to seek information from alternative sources, such as:

- Product-rating periodicals
- Libraries
- Public consumer agencies
- Television and newspapers

1. Periodicals and Other Literature

The following brief summary is based on A Guide to Consumer Action published by the Office of Education/HEW.[43] In the first category is Consumer Reports which goes to 1.75 million subscribers, and which includes impartial analyses and product information covering such products as appliances, cars, tires, vitamins and frozen foods. Ratings are given in order of estimated overall quality (without regard to price), advantages and disadvantages of various brands are explained, and price information is provided. The periodical is published by the nonprofit Consumers Union, established in 1936. The other major product-rating periodical is Consumers' Research published by Consumers' Research Inc., which similarly conducts tests and publishes product information and ratings. Unlike the the latter is not a membership organization.

In commenting on consumer-product testing organizations as sources of commercial information, E. Scott Maynes[44] finds that while this source is valuable for information concerning nationally marked products, especially concerning existence, brands, and quality, it has no ability to analyze locally marketed products and is only good for price information insofar as it gives estimates of range of price variability. He finds these organizations are very successful in providing complete, reproducible, comparative information given their relatively small budgets and their necessarily limited scope. Maynes further points out that the resources for these organizations totaled approximately $13 million in 1975 or .0002% of aggregate consumption expenditures while the financial resources devoted to all forms of advertising, public relations, and personal selling totaled $67 billion or 10.9% of aggregate consumption expenditure.

Since resources spent in marketing do not provide the direct commercial information required for enlightened consumer choice and for the justification of the freely competitive market, Maynes advocates the transfer of information/persuasion resources from business to consumer controlled organizations to be used for product testing and direct commercial information dissemination. According to Maynes,

> The [business] "right" to levy a 11% sales "tax" to finance its information/persuasion function arose as a historical accident, and was not divinely ordained . . . . A "truth tax" of 1% on business expenditures on selling-persuasion (one-half of sales payroll plus advertising outlays) would yield $70 million, a good starter for this countervailing activity.[45]

According to a spokeswoman for the American Library Association,[46] libraries are attempting to be of increasing service to consumers. Besides subscribing to the periodicals listed above, many are attempting to maintain their own files and reference collections, in order to refer patrons to specific information regarding consumer issues, specific businesses, and consumer action agencies. The spokeswoman notes the following two reference materials as being of special use to librarians: Consumers' Index to Product Evaluations and Information Sources in which articles from more than 100 periodicals are indexed under such headings as consumerism, money and the law, health and personal care, and the home; and, Information for Everyday Survival: What You Need and Where to Get It, which is said to be geared "not to the super-sophisticated but to everyday people."

2. Public Consumer Agencies

Many State and local consumer offices are set up not only to handle complaints, but also to service requests for information regarding various businesses and services. While often a State Office of Consumer Affairs will not recommend a specific company, they will tell a phone caller whether the office has received complaints about a certain business and how the complaint was resolved. Various offices (there are 362 consumer offices in the U.S., according to the Office of Education Guide) provide various services, and educators and the public will find it in their interest to check what services are available at their State and local levels. At the federal level, the General Services Administration publishes a Consumer Information Catalogue providing a listing of government sources from which many kinds of consumer services can be obtained. Pitofsky sees the following as goals toward which public consumer agencies and consumer activists should strive:[47]

- Stronger truth-in-packaging laws,
- Stronger federal and state "standards" in cases where the standard complements information and does not replace it,

- Laws requiring full disclosure of interest rates on a standard basis,
- Enforced positive disclosure in certain instances such as vitamins,
- Increased access to information from manufacturers, retailers, repairmen, service firms and the federal government,
- Consumer education in high schools,
- Special programs to increase the motivation of senior citizens, poverty-level families and young married couples to seek out and use commercial information needed for wise consumption.

3. Television and Newspapers

Finally, additional consumer information is available through the consumer interest programming offered by the Public Broadcasting Corporation and National Public Radio, and the consumer-issue columns in many newspapers. However, in some cases attempts by educators and journalists to raise consumer issues have led to editorial restraint on their opinions to avoid offending advertisers. Even in the case of public broadcasting there is a danger of reduction in corporate underwriting of public-issue programs, as was reported to be the case in 1975-76 with the provocative consumer reporting of San Francisco's public television station KQED.

In addition to consumer interest programming, television, radio and newspapers can play a large informational role in carrying the following forms of alternative information:

- Corrective advertising
- Counter-corporate advocacy advertising
- Non-ideological public service messages commenting on consumer issues
- "Action lines" providing consumer redress and indirect consumer information.

Corrective advertising is of major importance in providing consumers with the findings of governmental agencies (especially Federal Trade Commission and Federal Commerce Commission) investigating cases of commercial misinformation or fraud. This form of regulation has recently, for example, forced Warner-Lambert to disclaim that Listerine mouthwash reduces the incidence of colds and flu, STP to disclaim that its oil treatment increases mileage, and CBS to correct its promotion that a recent tennis match was being played under "winner take all" arrangements. As indicated by a National Opinion Research Survey conducted for Sentry Insurance Company, the American public strongly approves of these corrective policies with 95% of the public agreeing that false or misleading claims should be corrected in future advertising. Consumers further believe, by a 78% to 11% margin, that if a company's advertising is proven to be false or misleading, it should be barred from advertising for a period of time. This level is somewhat surprising given that only 59% of consumer activists and 40% of government consumer affairs officials agree with this position.[48]

The issue of counter-corporate advertising will be treated in Chapter III, and we do not feel public service advertising and consumer "action lines" require elaboration.

To summarize, this chapter has focused on consumer informational needs and the elements of present day advertising which supplant valuable information and which lead the consumer and society into patterns of resource allocation -- including those between expenditure and savings, work and leisure, and market and non-market sources of satisfaction -- that may be contrary to their best interest. We have attempted to indicate how non-informational elements of advertising -- persuasion, entertainment, obfuscation and deception -- impair the theoretical conditions necessary for "consumer sovereignty" and thus, how advertising, to some degree at least, undermines the theoretical justification of the market system.

These illustrations demonstrate how advertising and other promotional activities of business far exceed their role of providing consumers with useful commercial information that is economically justified.

II. ADVERTISING AND THE DISTRIBUTION OF RESOURCES

A. Introduction

The distribution of society's economic resources is important because it determines which goods and services are produced and who receives the income for doing so. Consequently, the economic well-being of consumers is closely tied to the question of resource distribution. Aside from goods and services, one of the most important consumer resources is time. Economic resources, taken as a whole, include: Time, which is distributed between work and leisure; income from work, which is distributed betwen spending and saving, and spending, on some goods rather than others. How consumers arrange their spending determines the allocation of goods among producers. Two main questions are addressed in this section: First, does advertising use economic resources efficiently in transmitting information to the consumer about goods and services in the market? And, secondly what is advertising's effect on the distribution of economic resources as a whole?

Both questions are analyzed in a general way by looking at relative costs and benefits to consumers and society at large.

One of the most important benefits attributed to advertising is that it decreases overall costs of production. Before examining this claim, however, we will assess the costs of advertising itself -- both direct and indirect.

1. Direct Costs

Estimates of total expenditures on advertising have been documented in Chapter I. A large but undetermined part of these advertising expenditures appears to be wasteful. The exact amount of waste is hard to determine and easily underestimated, because even where advertising is primarily informational in content, it may be using formats unnecessary for purely informational purposes. In addition, in some advertising media, there is considerable repetition of messages. This is particularly true in television, where a few advertisers account for the bulk of advertising expenditures.

In television, the top 25 network advertisers currently provide half of the advertising revenues of the top three networks, with three large soap companies alone accounting for 14 percent of the total revenues. This concentration demonstrates that the TV-watching public is likely to receive a great deal of "information" about a few products and relatively small amounts about others.[1]

Wasteful use of resources in advertising inevitably affects the consumer through producer price increases. A good example of how wasteful advertising expenditures redistribute resources away from consumers was provided by the British Monopolies Commission. After a three-year study of household detergents, it concluded that Proctor and Gamble and Unilever -- which controlled 90 percent of the British Market and whose detergents were almost chemically identical -- were wasting money on advertising at the expense of consumers. Close to 25 percent of their retail price consisted of advertising and selling expenses. The Commission recommended a 40 percent reduction in selling expenses and a 20 percent reduction in wholesale prices.[2]

2. Indirect Costs

Advertisers are concerned primarily with expanding the market for their own products. If they are not successful in shifting expenditures between brands or products, or at least in expanding aggregate consumption so that the demand for their products is increased proportionately, it can be concluded that advertising is simply redundant and, hence, a total waste.

This conclusion is possible but unlikely. It presupposes irrationality on the part of the producer. The argument that advertising is simply a defensive response to other advertising and does not affect market share is not dealt with here. But it is reasonable to suppose that it is only a possible partial explanation of function of advertising.

If we assume, for present purposes, that advertisers are successful in transferring resources (expenditures) -- the evidence is sketchy but fairly positive -- the following redistribution of resources is probable, based on observed biases in advertising.

A shift of consumer spending between brands will lead to an intra-industry or inter-brand reallocation of resources while a shift of consumer spending between types of products will lead to inter-industry reallocation of resources. Both of these possibilities will be analyzed subsequently.

If a relationship is thereby demonstrated between inter-industry resource allocation and advertising then it is also feasible that a relationship exists between advertising and aggregate consumption patterns; advertising is directed primarily towards increasing the consumption of various goods and services emphasizing spending rather than saving. Likewise, advertisements only give information on market as opposed to non-market goods and services. If advertising affects individual tastes and individual priorities, therefore, it will have ramifications on many aspects of social and economic life.

Judgments about possible effects of advertising have to be made carefully. Consumer welfare may be increased on the one hand by the advertising of new products but may be decreased by the relative lack of information about non-market and other non-advertised goods, resulting in distortions in revealed consumer preferences. It is not possible to make that judgment here. But we will outline the sources of bias for evaluation. Much of the analysis of Chapter II is focused on the indirect costs of advertising because of the importance of the issues involved.

3. Benefits

The case for advertising very often rests not on disputing the cost involved but on justifying advertising by concentrating on its positive aspects. One of the main justifications for advertising expenditures is the view that advertising promotes large-scale production by creating a market for its product, thereby reducing production costs and consequently, prices. The view that advertising actually lowers prices is controversial. It can only be the case if the following is also true:[3]

- Advertising causes sales increases;
- Cost savings are passed on to the consumer;
- The costs of operating large plants are lower than the costs of operating smaller ones;
- The industry is one whose costs of production per unit decline as production increases.

Therefore, advertising can only reduce production costs and, in turn, prices, if the product's market is competitive and economies of scale exist in the production and marketing process.

Neil Borden analyzed the relationship between decreasing production costs and marketing,[4] i.e., whether low-cost production was associated with marketing efforts. Although there was some affirmative evidence, it was impossible to show a clear causal relationship between the two factors. In addition, his methods of analysis were not sufficiently systematic to give reliable estimates of the relationship.

The other justification for advertising costs, the information role of advertising, has been discussed previously.

B. Intra-Industry Allocation of Resources

1. Theoretical Debate

There are two aspects of the question of the influence of advertising on the redistribution of resources between firms in an industry: whether consumers change their patterns of consumption between brands, and if so, how this may influence the concentration of firms in an industry.

We do not have concrete evidence of the effect of advertising on the distribution of consumer spending, but it is evident that, if firms behave rationally, they would only advertise to the extent that it would enable them to attract consumer spending from or to prevent loss of customers to other brands.

All companies therefore attempt to create brand allegiances for their product but those in some industries are particularly successful in doing this. They differentiate their product from others in the market by creating an image of uniqueness through advertising despite the fact that the product may be chemically similar to or the same as other products on the market. In this way, consumers are induced to pay prices in excess of competitive levels. There are many commodities, for example, where prices are considerably above cost when the advertised product is compared with an unadvertised one from the same company. Gordon and Lee cite the case where the buyer pays 25 cents for a package of 24 nationally-advertised aspirins when he could buy the identical unadvertised product at a price of 99 cents for 1,000 tablets.[5] To the extent that product differentiation is contrary to consumer interests, advertising contributes to less.

One of the major debates over advertising has been over its ability to create market power for a few individual firms in an industry which enables them to charge excessive prices. Comanor and Wilson in their empirical work on advertising and market structure suggest two reasons why this should occur:[6]

- Early entrants to the market can, by use of product differentiation and advertising, create "customer following" which can only be gained by later entrants at greater cost, e.g., the success of "Frigidaire," "Kleenex" and "Thermos";
- There are economies of scale in advertising and in differentiating products so that only large firms can achieve the lowest cost levels.

The above characteristics make it difficult for new firms to compete. They create non-competitive environments for old firms to operate in and may, as a consequence, lead to oligopolistic market structures. An oligopolistic industry is one in which output is concentrated among a few firms, which recognize that their output decisions have a perceptible influence on price. Characteristically, firms under oligopoly tend to keep much less effective control of their costs than do firms in competitive industries. Also, recent evidence shows that, in many instances, corporations with a disproportionate share of market power invest less in technological research to improve product quality than do firms in competitive sectors. Moreover, it has been shown that oligopolistic corporations tend to innovate in directions which are disadvantageous to the consumer. These innovations involve reduced product durability, fewer low-cost manufacturing techniques and new production methods which could further raise barriers to entry into the industry.[7] All of these factors affecting the quality and the final price of the commodity represent welfare losses to the consumer.

2. Cost of Market Power

There is a large body of literature showing the great disadvantages of market power in terms of and to the society as a whole. It will not be examined in detail in this study.[8] In evaluating the effect of advertising on consumers' well-being, it is important to recall that the market system can work well only if goods and services are produced under conditions of competition.

3. Empirical Results

In terms of empirical analysis, several attempts been made to prove a correlation between the advertising intensity of an industry and its profitability and concentration. The interpretation of the results, however, has been the subject of considerable controversy.

Recognizing that advertising interacts with other elements of the industrial structure, studies by Bain and Teber, Scanlon, Porter, Boyer, and Comanor and Wilson focus on advertising as an independent element suggesting that it can increase barriers to entry in an industry and generate monopoly profits due to buyer inertia and loyalty. Their treatment of the issue can be contrasted to Stigler's[9] description of advertising as a means of decreasing the cost of market information, and, in recent empirical research, Yale Brozen's studies[10] which attempt to demonstrate that advertising counteracts product differentiation and makes industries more competitive.

Comanor and Wilson, who provide one of the most extensive studies of advertising, analyze the relationship between profits and advertising for 41 consumer goods industries. They find that within each industry, the profitability of a firm is positively correlated with its advertising expenditures which, therefore, contribute to high profit levels. They conclude that intense advertising in some industries poses considerable barriers to entry into those industries.

Joe Bain's study of 20 American industries yielded similar results He found that there were substantial economies of scale accruing to promotion and product differentiation and that such economies were "of at least the same general order of importance . . . . as economies of large-scale production and distribution in giving established market leaders a price or cost advantage over rivals."[11]

Scanlon concentrated his study of advertising on the breakfast cereal industry, and his results support both Bain's and Comanor and Wilson's. At the time of his study, three firms dominated the cereal market, accounting for approximately 85 percent of total sales. Profits were found to be at extremely high levels with Kellogg, the industry leader, showing an average after tax return on stockholders' equity of greater than 20 percent -- more than double the competitive norm. There appeared to be no technical reasons for the high concentration and resulting high profits; consequently, Scanlon cites barriers to entry as the cause of the industries' oligopolistic characteristics.[12]

The Michael Porter[13] and Kenneth Boyer[14] studies analyzed and tested the correlation between advertising intensity, profits, and concentration somewhat differently. They distinguished between advertising by manufacturers and by retail and service trades and dealt with them separately. Both studies found a strong positive correlation between advertising and profit rates for manufacturing industries. But, in the retail and service trades, there was a non-significant relationship, according to Porter's study, and a moderate negative relationship, according to Boyer. Both these studies provide some evidence of the existence of a correlation but they demonstrate the greater complexity of the issue.

In his study, Brozen attempts to refute the argument that advertising promotes high concentration and monopoly profits. He contends that advertising does not encourage nor facilitate physical product differentiation but attempts to counteract it -- thereby making industries more competitive. He makes the following observations based on several single industry studies to support his claims:

- New products are advertised more intensely than old ones.
- Customers in markets with heavy advertising expenditures are less loyal to any one brand than are customers in markets where advertising is less intense.
- Highly advertised brands are more uniform and of higher average quality than less advertised brands.
- Firms which have the most sales advertise less. (This, according to Brozen, demonstrates an effort by smaller firms to dislodge the more successful ones in the market.) [15]

He concludes that none of these findings supports the view that advertising is a barrier to entry for new firms.

There is substantial evidence to support Brozen's first and last findings but less evidence supporting his others. In addition his conclusions do not necessarily follow from his findings. In particular, it is not only new firms which continually introduce new brands but old oligopolistic firms which dominate the industry that do so. Indeed, brand proliferation is a strategy for preventing entry, protecting the market power and profits of the existing firms.

Ferguson provides a slightly different theoretical and empirical discussion of the issue. He questions the conclusions reached by Bain and Taber, Comanor and Wilson, and others, on the basis of their initial assumptions.

> The argument that advertising causes higher industry concentration is incomplete, because it does not follow from the assumption of increasing returns to advertising expenditures that industry concentration must increase . . . . rather it can lead to many efficient multi-market conglomerate firms.16

Consequently, unless there are increasing returns to advertising specific to the industry, industry concentration need not increase.

Secondly, Ferguson argues that while price competition decreases with concentration, non-price competition increases and the latter may erode monopoly profits. He goes on to explain the observed relationship between advertising and monopoly by providing a demonstration of how monopoly power might lead to greater advertising rather than the other way around.

According to Ferguson, the theoretical arguments supporting the position that advertising creates monopoly power are incomplete. But his objections do not invalidate the hypothesis that advertising creates monopoly power and they ignore both the consequences of conglomeration and the adverse impacts of non-price competition.

Conglomerate firms may benefit from increasing returns to advertising, but this does not preclude the probability that single market firms will also benefit from increasing returns. If there are economies of scale in production, finance or marketing in a single industry, there will be benefits to the one-industry firm. Secondly and more important, the issue is not whether advertisers guarantee monopoly profits but that it facilitates monopoly position. Monopoly returns may be facilitated at certain stages of the firms' growth, but in order to establish a theoretical premise for a relationship between advertising and monopoly power, it is not necessary to assume there is a positive relationship between the two at all stages of growth. For instance, it is quite likely that once firms have reached the stage where they can effectively collude with rivals, they can cut down on their advertising revenues and thus increase monopoly profits. But before this can happen, advertising is mobilized to facilitate monopoly power through non-price competition. This sequence ties in with Ferguson's point that collusion to restrict non-price competition may increase with concentration in "high concentration industries." It is also compatible with the evidence he cites from many studies, that there is a significant non-linear17 relationship between advertising and concentration.

Inevitably the relationship between advertising and concentration is a complex one, but it appears that there is a preponderance of theory and of empirical evidence that it does exist.

C. Inter-Industry Misallocation of Resources

The issue of inter-industry distribution of resources is important, because it provides a basis for the hypothesis that advertisng shifts consumer spending between different categories of goods. Further, it suggests that there may be some relationship between advertising and total consumption of goods and services.

The argument that advertising can influence the allocation of resources between industries assumes that advertising can break down traditional consumer ideas about essential and non-essential goods and build up rationale for believing the inessential to be essential. In the marketplace, the greatest portion of consumer income is spent on basic living requirements for which there are fewer substitutes than for other goods. But, in the United States, a majority of people have incomes which are high enough to enable them to have substantial amounts of discretionary spending. In addition, much of this discretionary spending is of recent origin, because incomes have risen substantially only in this century. It is highly unlikely in this environment that consumer preferences have achieved any kind of stability; in fact, there are many indications that the divining line between discretionary and non-discretionary spending has shifted. Commodities such as automobiles, once considered luxuries, are now regarded as necessities. Income changes have played a major role in facilitating consumer spending on this item but cannot alone explain the change in consumer values that has occurred.

Furthermore, once a good is regarded as a necessity, other alternative sources of consumer satisfaction are likely to be foregone, including categories of goods requiring what is normally regarded as non-discretionary spending.

> A smoker's demand for cigarettes is no more elastic than his demand for food; are cigarettes then a necessity? There are no biological standards to establish the necessary minimum of clothing, housing, heating, lighting, kitchen and bathroom facilities.[18]

Advertising has been mobilized apparently successfully to change preferences to the extent of altering the perceived functions of goods. There has been very little theoretical discussion or empirical research on this specific issue, but Comanor and Wilson extended their analysis of advertising to consider its impact on industry or commodity demand. They find that an increase in advertising has a greater effect on allocating resources between industries than prices (which they considered the other possible explanatory factor) and they conclude that:

> The argument that advertising serves merely to allocate spending between brands within brand groups of products is called into question by these results. If anything, advertising comes through as a more important determinant of the inter-industry allocation of sales than are relative prices.[19]

Comanor and Wilson's analyses are fraught with conceptual and practical difficulties and their results cannot be accepted without caution. Nevertheless, in our view, inter-industry allocation of resources is a likely effect of advertising because of the importance of discretionary spending and the flexibility with which consumers categorize necessities and luxuries. Whether consumer well-being is increased or decreased by changes in consumption patterns is difficult to measure. We cannot automatically assume that increased consumer well-being results from the changes, and we cannot ignore consumer choices as revealed by their spending.

D. Allocation of Individual and Family Resources

Resources are distributed among producers by consumer spending; hence, the importance of consumption in an allocative role exists. In addition, the total amount of expenditures individuals allocate to consumption affects what they allocate to individual savings. This allocation of individual resources between consumption and saving affects producers through demand for their products (consumption) and through the supply of resources available for investment on future consumption (savings).

1. Consumption Versus Savings

If advertising influences (increases the level of consumption that people desire to achieve), it affects the economy as a whole in two major ways: It exerts pressure on people to increase the share of their income they spend rather than save and it increases their desire to earn income, i.e., to work rather than to seek and enjoy leisure. In this subsection we deal only with the first of these; in the next section we take up the second.

If advertising does increase pressure on individuals to consume larger portions of their income than they otherwise would, it tends to encourage borrowing by consumers and to reduce the pool of savings available in the economy for investment. At the same time it is a stimulus to growth and to the faster consumption of natural resources, including the environment.

Much attention has been paid to this aspect of advertising.[20]

> Businessmen and economists have few doubts that advertising increases consumption for the economy as a whole. In fact, the opinion of our profession is almost unanimous . . . . K. S. Rothschild is categoric in his assertion, "I think it is hopeless to try a quantitative estimate of the effects of total advertising on total consumption. All we can say is that the habit of advertising must be responsible for a considerable increase in the propensity to consume."[21]

There is no effective counter balance to an increase in advertising. Any kind of advertising that supports savings and investing would be helpful but the quantity of advertising for savings institutions is tiny relative to all other advertising.

The theories of certain economists on the relationship between savings and consumption appear to limit the role advertising can play in determining the level of consumption. Modigliani,in particular,in his life cycle hypothesis of consumption behavior, asserts that an individual's consumption activity is distributed through the life cycle and at any point in time his consumption and savings pattern depend on which part of the life cycle he is in.[22] In a similar way, according to Friedman's permanent income hypothesis, consumption spending is related only to permanent shifts in income which minimize the possible affects of "short run" influences such as advertising.[23]

These theories are based upon the assumption that individual tastes are fixed and independent of each other. If this assumption is set aside,both of these theories can include the possible effects of advertising. In response to Modigliani, if advertising persuades an individual to spend more when he is young, then aggregate savings would be effected. In addition, responding to Friedman, if the individual moonlights, in response to advertising promotion, the ratio between consumption and saving may remain the same, but total consumption will have increased. Advertising can be effective, therefore, but its effects may not be measurable in terms of the Modigliani and Friedman propositions because the latter assumes fixed tastes.[24]

Julian Simon attempts to draw together some of the empirical evidence on this issue. He cites two types of study: One which attempts to compare demand with and without promotional input, and for this he uses a newspaper strike; and, secondly, a time series study by Yancey which looks at the effect of advertising on demand over time. The latter found that:

> The application of selling effort and product quality as represented by advertising appears to have raised the level of consumption.[25]

Evidence from the newspaper strike demonstrated a decline in consumption during the strike and a resumption of former consumption patterns after it had terminated. There are enormous conceptual and empirical problems associated with both these kinds of studies,but,as Simon points out, all the major difficulties tend to obscure the effect of advertising and, therefore, if anything, the results underestimate its effect.

Taylor and Weiserbs also conducted an empirical test of the effect of advertising on aggregate consumption, and their results correspond to the rest of the evidence. They suggest a strong positive impact of advertising upon consumption. With consumption as the dependent variable, they found that "a one dollar per capita increase in advertising expenditures is estimated to lead to an increase in per capita consumption of about $4.55 in the short run and $7.85 in the long run." The short run effect of a dollar increase in advertising on savings was found to reduce savings by about $4.10.[26]

It is possible to conclude therefore that marketing not only increases the demand for a product but also tends to increase the demand for all products. This takes place when consumers are persuaded by marketing techniques to substitute among widely divergent goods. Marketing efforts to persuade the consumer to give up one for the other seem to be effective in changing the uses of leisure time to a more market oriented use of time, i.e., more time spent in working and consuming rather than taking walks, etc. Economic theory recognizes the trade off between work and leisure, and consumption and savings,and explains individual choice between these categories in terms of income. Generally speaking at higher income levels, leisure is preferred to work and the proportion of savings to consumption increases. Another dimension is introduced here. As incomes have risen, consumption oriented leisure has emerged as a way of using free time, so that it yields a higher value or utility. This increases the value to the individual of an additional increment of income, which, in turn, encourages work. Hence, work and consumption are preferred to "free time." With a dearth of persuasive cultural alternatives, moreover, the bias towards material consumption becomes culturally ingrained and self reinforcing:

> As society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied. This may operate passively. Increases in consumption, the counterpart of increases in production act by suggestion or emulation to create wants. Or producers may proceed actively to create wants through advertising or salesmanship. Wants then come to depend on output.

Partly because advertising apparently alters preferences and provides unbalanced information, indicators of growth and production are no longer indicators of welfare levels. As Galbraith continues:

> In technical terms it can no longer be assumed that welfare is greater at an all round higher level of production than at a lower one . . . . The higher level of production has merely a higher level of want creation necessitating a higher level of want satisfaction.[27]

Scitovsky in his book, The Joyless Economy, provides us with general explanations of these phenomena. He points primarily to industry needs of "mass consumption" to facilitate "mass production" and to the individual's need for comfort and stimulation in the satisfaction of his wants. Goods are created and marketed which can both be mass produced and can appeal to individual needs. Automobiles are a prime example of mass produced goods with mass produced "appeal." The appeal comes in the form of style changes each year. While some purchasers want the model changes others do not. The cost of model changes, calculated to be 1/4 of the cost of cars in the period from 1949 to 1962 is borne both by those who want them and those who do not -- one of the drawbacks of economies of scale. The combination of novelty with utility imposes a cost; all package deals are suspect and virtually all consumer goods are of this nature.[28]

Consumption has been "sold" to people by breaking down barriers of individual habits. The notion of the individual as the object of continual harsh social scrutiny underscores the argument of much of the ad texts of the decade. Appeals to social insecurity and fear are made with the proviso that it is possible to ameliorate these fears through the marketplace. The social pressure involved is primarily competitive in nature and plays upon the status needs of people who instead of striving for excellence, which could itself provide status satisfaction, strive for status in a general token such as income. This increases one person's status at the expense of another and presents no limit for people's demand for status. Money income has a drawback as a measure, because knowledge of it is seldom in the public domain. To enjoy a high income and esteem, it is necessary to let others know by consuming conspicuously.

> What Thorstein Veblen had theorized as the conspicuous consumption habits of the leisure class were now propagated as a democratic ideal within mass advertising. In order to sell the commodity culture, it was necessary to present people with a vision of that culture from which the class basis of dissatisfaction had been removed.[29]

2. Misallocation of Resources Between Work and Leisure

There are a number of forces, advertising, product differentiation, and other marketing techniques, that work together to increase total consumption. The evidence is not entirely clear, but the preponderance of evidence indicates that those efforts do work and that consequently the society consumes more than it would in the absence of these forces.

As previously mentioned, one consequence of the stimulus of aggregate consumption is to affect the trade-off between work and leisure.

a. The value of leisure

There is a tendency to underestimate or even to ignore the importance of leisure in the economy. Perhaps because of the great concern with employment and production, the idea that the ultimate purpose of economic activity in a free society is to increase some combination of consumption and leisure for the people of the society is often overlooked.

Yet, leisure time is the time for self-fulfillment, intellectual, cultural, spiritual development, and fun. Incursion into leisure time is therefore accomplished at real cost to consumers.

There are no precise calculations of the value of leisure in the economy -- some writers have attempted general estimates but they are substantially different from one another. The value of leisure is estimated by Scitovsky to be a multiple of national income, usually 2 or 3 times more, excluding from the calculations the possible value of the satisfactions/dissatisfactions obtained from work. These estimates have been made by multiplying the total hours of leisure by the value of one hour of work forgone for its sake.

Other estimates have placed the aggregate value of leisure at about $240 billion per year in 1966 (about 3/4 of national income) and as high as 1.66 times national income.

b. Work and leisure

Leisure and paid employment (work) are two of the major use of time. In addition there is a third category of non-work/non-leisure time: sleeping, commuting, necessary shopping, etc. Leaving aside the third category, as the amount of work increases the amount of leisure tends to be decreased and vice versa.

Advertising with related marketing techniques appears to have two major impacts on the relationship between work and leisure. It imposes conflicting pressures as to the amount of leisure individuals desire, and it changes the quality of leisure.

To the extent that advertising has increased the desire to consume, it has stimulated the demand for income, which means that it has increased the willingness of people to work. (This same tendency is reinforced by many other factors, including, perhaps, persuading people that paid work, itself, is a status symbol.)

The situation is more complex. Marketing has also pushed consumption-oriented use of non-work time, ranging from the use of power boats to tourism. Thus, it simultaneously increases the demand for income and hence, work (to be able to afford the accoutrements of materialistic use of leisure) and it increases the demand for leisure time in which to use the adult toys. In addition it changes the nature of leisure.

Whether these consequences are in some absolute sense decreasing consumer well-being is a matter of values. Linder provides a rather wistful view of "what might have been."

> People would gradually be freed from toil and starvation in order to devote themselves to cultivation of the mind and spirit in accordance with the ideals of classical antiquity. What we now mean by consumption would take very little time. The economic target would be met as soon as we had reached a material level permitting uninterrupted philosophical exercises . . . . This picture has been belied by events. As economic development has continued, attractive alternative ways of using time have emerged. Meditation has been driven off the market.[30]

It is possible to go one step further, more or less following Bartlett's analysis of the role of subsidized information (Chapter I). To the extent that advertising has imposed producer values on consumers it would only be coincidental if their choices of allocation between leisure and work (income) were responsive to consumers' own basic preferences.

3. Consumption of Market Goods as Opposed to Non-Market Goods

Within the category of consumption we can separate the consumption of market from non-market goods. Similarly we can differentiate between leisure spent consuming market goods and leisure spent consuming non-market goods or services. Non-market goods and services are those goods and services which do not go through the market but that are given and received freely, their reciprocity and equitable or acceptable distribution being assured by custom, tradition, social pressure, family discipline or law:

> Private non-market goods and services range all the way from food produced and consumed on the spot by farm households to that advice which parents and in-laws used to give which now goes through the market.[31]

Time budgets demonstrate that the average weekly hours of housework, voluntary work and free help, when computed by using the wage rate that the person doing the job normally receives, or the going market wage for the activity, adds almost one-half to the family's money income or about two-thirds to their expenditures on goods and services. The estimates calculated by Nordhaus and Tobin for national totals are even higher, $295.4 billion in 1965 or about 65 per cent of that year's national income.[32] Furthermore, Scitovsky believes that the true value of non-market goods and services are even higher when non-market satisfactions are taken into account.

Nevertheless, whereas some categories of non-market goods are still important, most non-market goods have decreased in use, especially private non-market goods and services such as food produced and consumed on the spot, advice given by families, homemade products, free entertaining.

Time budget data on the way the average wage or salary earning man uses his time shows that between 1934 and 1966 he drastically reduced the time he spent at meals, walking for pleasure, at the movies, listening to the radio, playing cards, watching sports events, reading books and purposeful travelling. Of the time saved, half went into watching television, the other half being divided between more time spent on shopping, visiting and doing housework. These shifts represent increasing proportions of time spent on market (shopping and to some extent television) oriented activities, increasing proportions on "residual" activities such as those activities that do not need prior organizing and decreasing proportions of time spent on non-market goods and activities (with the exception of writing friends and housework).[33]

This trend towards consumption of market goods and services has occurred in conjunction with other changes in our society notably increased specialization, increased mobility and a shift from an extended to a nuclear family.

Specialization, in particular, has decreased the value of non-market goods vis-a-vis market goods which has concurrently led to an increasing dependence on advertising as a source of knowledge and information relating to market goods and services. Advertising is also likely to have played an antithetical role in this process, creating and then reinforcing the preferences of the public for market goods and services, increasing their relative "desirability" and "value."

While there is no quantative evidence on the effect of advertising in this area, the available theory suggests that it is likely to introduce serious distortions into consumer actions and that those actions are adverse to the consumer's ultimate self-interest. Bartlett has shown that any decision maker is likely to make choices contrary to his/her own interests if he/she is faced with favorable information on one side of the choice and no information on the other. Advertising of market goods with the exclusion of equivalent subsidization of information favorable to (or neutral and objective about) non-market goods does exactly that.

E. Macro Allocations

1. Public and Private Goods

The reallocation of resources between consumption and saving, between market and non-market goods and between work and free time has implications for the allocation of resources between public and private goods.

The increased tendency to consume rather than save and to consume market rather than non-market goods aggravates the competition between the public and the private sector for individual and aggregate savings. If private goods are valued more than public goods at the margin, public policy representatives will reallocate resources towards the production of more private goods. In this case, taxing private individual income and private corporate income for use in the public sector will be minimal. The revealed preference for the consumption of market goods, demonstrated in the previous section, indicates growth towards private consumption goods rather than towards public consumption goods such as parks and recreational facilities. Providing leisure facilities through the private market, however, is often more expensive. Equipment cannot be shared, and facilities are often underutilized. If the costs of these facilities were shared, on the other hand, the cost to the individual would tend to be much smaller, and more people would be able to benefit from them.

The neglect of the public as opposed to the private sector has been widely proclaimed, by Galbraith in particular:

> In the years following World War II the papers of any major city -- those of New York were an excellent example -- told daily of the shortages and shortcomings in the elementary municipal and metropolitan services. The schools were old and overcrowded. The parks and playgrounds were filthy and the sanitation staff were underequipped and in need of men.

These problems cited by Galbraith were not new ones, but old ones which had been neglected. Cities have long swept their streets, educated people and kept order. Furthermore, the growth of public poverty went hand in hand with the growth of private wealth:

> The Gross National Product was rising. So were retail sales. So was personal icome. Labor productivity had also advanced. The automobiles that could not be parked were being produced at an expanding rate.[34]

While the private sector redresses its imbalances reasonably well by the price system, this does not work for the allocation between public and private goods. Some public goods are more closely connected to the private system than others, notably highways, and are more closely affected by the demand and supply of market goods. For the most part, however, public services are neglected, the rich pay for their needs, and public services are of notoriously poor quality.

Galbraith further argues that decisions the consumer or the community makes concerning the allocation between public and private goods do not necessarily reflect an optimum allocation in terms of economic welfare because there is no real choice involved:

> Subject to the imperfections and uncertainties people decide how much of their private income and goods they will surrender in order to have public services of which they are in greater need . . . . But given the dependence effect -- given that consumer wants are created by the process by which they are satisfied -- the consumer makes no such choice. He is subject to the forces of advertising and emulation by which production creates its own demand. Advertising operates exclusively and emulation mainly, on behalf of privately produced goods and services.[35]

2. Implications for the Future

Many business leaders are pessimistic about the economy's ability to generate sufficient savings to meet future capital "needs." They frequently perceive demands for environmental, health and safety protection as imposing inordinate demands on the economy for future capital. The availability of capital for expansion of the private sector is similarly imperiled by any increases in the demand for public capital or other expenditures.

Advertising plays a dual role in any impending capital shortage (and there is considerable controversy over whether any genuine threat of a capital shortage exists). First, by stimulating consumption and encouraging the substitution of market for non-market goods, it contributes to the demand for private capital. Second, at the same time it tends to reduce savings, it tends to reduce the supply of capital. Third, by stimulating demand for private rather than public goods it increases the demand for capital in the private sector and reduces that for capital in the public sector. Thus, in general it contributes to the likelihood of any capital shortage and to a distribution of available capital to the private and away from the public sector.

It is necessary to understand what kinds of choices can be made in this area and that our bias towards private consumption goods, encouraged by advertising and other arms of mass production, is not inevitable. Our choice is not a zero sum choice but it does involve questions of priorities, the understanding of which we have to grasp in order to make educated choices for the future.

III. ADVERTISING'S IMPACTS ON CONSUMER AND CULTURAL VALUES

A. Introduction

Having developed in the first two chapters of this report major issues of information use in consumer decision making, and the influence of advertising on various patterns of resource allocation -- industrial, individual and national -- in this chapter we address general influences of advertising on American culture. Here we attempt to be both general, by summarizing a few of the most insightful points on advertising's influence on individual life-style and mass culture, and more specific, by covering in some depth certain topics not developed above but which have been of major concern to educators and the public. These topics include the saturation of the media with messages aimed at various segments of the public (the effects of advertising on children will be given special treatment), advertising's role in determining the quality of the commercial media, advertising's impact on political processes and citizen life-style (focusing on the relatively new phenomenon of non-commercial corporate advocacy advertising) and, finally, general comments on advertising's impact on social change and aspiration, especially on minority segments of the U.S. population.

B. Effects of Advertising on Individual Life-Style and Mass Culture

1. Advertising and Social Change

Americans have been largely aware of the acceleration of change in this century, and, perhaps because initially much of the change (since the depression and war years) paralleled the rise in national and personal income, few of the upwardly mobile questioned the nature of changes in their consuming and socio-cultural patterns. Not until the extreme disruptions and awareness of the 1960's and the publication of such literature as Toffler's best seller Future Shock (1970) and some of the works of Daniel Bell[1] did many Americans realize that the "American" dream images (of the late 40's through 60's) as reflected in the media hid another reality of poverty, technocratic and bureaucratic abuse, environmental wastage and urban decay; that speed of change had its dangers and that the facade of Pragmatism and technical efficiency, concealed hedonism, moral ambivalence, and conflict. Only following social upheaval was there popular questioning of the impact of the media and commercialism on Americans themselves and their children and uneasiness toward affluence and consumption as fueled by "demand management" and advertising

In Chapter I, Galbraith's concept of "demand management" was introduced. It is his thesis that due to large-scale industry, it is necessary for policy to maintain production, consumption and employment at high levels, and that advertising is used by business to influence consumers and to circumvent consumer sovereignty. Virtually all advertising literature claims that advertising has been a "progressive" force which has spurred industrial production through encouraging consumption. Advertising executives justify their huge advertising expenditures as a necessary industrial expense which has contributed to the rapidly rising level of disposable income enjoyed by Americans throughout the post-war period. Without advertising, they claim, the American population would not be affluent and would not be able to enjoy the myriad of products and services they do. However, the question remains whether the industrial requirement of advertising is compatible with our social and cultural ideals and whether the values implicit in advertising have in any way helped us to live with our mass affluence.

2. Advertising's Impacts on National Character

In her article "The Cultural and Social Impact of Advertising on American Society,"[2] Jones notes that the average television viewer is exposed to about 40,000 commercials a year. She further quotes former Secretary of Health, Education and Welfare Finch that the average human being over his productive life span watches television commercials alone for more hours than he ever spends in school, and that the average pre-school-age child is estimated to have absorbed more hours of unstructured TV input than the hours an average student at a liberal arts college spends for four full years in the classroom. In questioning what the advertising and broadcasting industries are doing with these hours, and how this viewing is affecting our national character, she attempts to clarify the cultural spillover which American advertising has on three areas:

- American value systems
- American life-styles
- American attitudes toward society and the many diverse individuals in the nation.

In examining advertising's impact on value systems, she finds that the non-commercial message which comes through an advertisement, the conscious appeal, is essentially materialistic. She finds central to the message of the TV commercial the premise that it is the acquisition of things which will satisfy basic and inner needs and aspirations, and that the major problems confronting an individual can be instantly eliminated through the purchase and use of some product. Externally derived solutions are made the prescription for life's yearnings and hardships, and no recognition is given to the individual's essential responsibility to develop his own capacity to deal with life's problems, without seeking an end or consolation in some material solution.

This argument is strongly voiced by Illich in his Toward a History of Needs[3] in which he discusses how people within advanced societies become overly dependent upon the consumption of expensive services in trying to satisfy desires and wants. He also argues that through confusing basic needs with less basic wants, the former are increasingly unsatisfied. He sees such advertising as that by the pharmaceutical industries as lifting personal physical and mental health care away from the individual and small group and entrusting it to corporate and medical elites. Self-care of many varieties is lost as one is urged to seek to remedy every need or want through a product or through the services of an "expert."

There is, of course, a wide divergence of opinion on the issue of advertising's influencing materialistic values in American culture. According to the American Association of Advertising Agencies, 85% of the sociologists surveyed felt advertising promoted values that are too materialistic, compared to 67% of the religious leaders, 42% of the economists, and only 6% of the business leaders.[4]

Jones' finding on advertising's impact on individual life-style is that it is the premise of these ads that we are highly externally motivated, wanting to act and be like our neighbors or to emulate popular, successful individuals. Personal success is seen as being externally contrived through the possession of products, status, and glamour widely and popularly recognized, and not the product of years of study or training. Because these qualities are more easily and quickly gained the higer an individual's level of disposable income, personal and social development is sought through accruing and consuming ever greater levels of disposable income. An individual's life-style is thus split into two aspects, work and leisure, and the enjoyment of the former is to be downplayed as long as it provides a level of disposable income allowing an individual to feel personally and socially "with it" when it comes to consumption of foods, clothing, and recreation.

The image of a fully individuated, complex human striving for self-expression, intimacy and social service, an image present in most world literature, is completely absent from the thousands of hours of TV commercials and most program content. Instead we are presented with a single, overly simplistic, and distorted answer to the needs and hopes of individuals. According to humanistic psychologist Abraham Maslow,[5] an individual, having satisfied his basic needs for food, shelter, sexual fulfillment and economic security, next strives for social and psychological security through intimacy and sociality, and finally highly individuated self-fulfillment through artistic expression, scientific insight, or religious sensitivity. Advertising and its imagery is necessarily confined to commercial fulfillment of the lowest needs; it cannot deal with higher levels of man's "hierarchy of needs." Advertising thus dampens an individual's striving for his own life-style and undermines the range of action, expression, and thought which economic affluence should have endowed many of the individuals in the nation.

As to advertising's impact on individuals' attitudes toward society and the many diverse individuals comprising this nation, Jones notes that the television commercial presents only a very special and limited view of American society. This issue will be returned to in the final section of this chapter.

3. Consumer "Education" by Industry

In a more critical view of advertising's impact on social and cultural values, Stuart Ewen, in his social history, Captains of Consciousness: Advertising and the Social Roots of Consumer Culture,[6] traces the evolution of the American laborer into American consumer, and examines advertising's use by industrial management in "educating" the masses into patterns of consumption which serve industrial goals. According to Ewen, laborers just emerging from a world of long hours seven days a week and often very low-quality living conditions had to be taught through advertising to use and, further, to enjoy the products which they were themselves producing. Whole new classes had to be introduced to basic civilities such as cleanliness, fashion, and body-beautification; and advertising served that purpose by presenting models of such a life-style. Later in American industrial history, as the rate of production increased, people had to be educated to "conspicuously consume," something that earlier, according to Veblen, had been a practice of only the rich.

Still later they had to be encouraged to be wasteful, to use and discard products more often, so as to buy new products more often. Product durability was reduced, in order to keep production and profits in certain industries at high levels. According to Ewen, at every step of our accumulating affluence we had to be enticed to act in new social manners so as to sustain the affluence, and advertising, at first seen as an "educating" or "civilizing" function, necessarily became, in the new world of leisure time and higher income, a controlling ideology of increasing technical sophistication exhorting people to consume market products and services and, thereby, presumably to enjoy their lives. If they did not seek satisfaction and fulfillment through consumption of industrial products and services, the economic underpinning of their affluence would be threatened. According to many recent commentators, such as Galbraith, Scitovsky, and Hirsch[7] by having entered a "consumer culture" in which consumption of industrial products and services is guided by advertising, we have lost touch with the finer meanings of work, time, and enjoyment. The leisure time which is a potential dividend of industrialization and efficiency is often reinvested in work in order to gain further discretionary income for market consumption. One is also encouraged to seek satisfaction in market goods and services, rather than in non-market goods and services, such as handicrafts, community organizaing, and sharing. (These personal allocations were discussed in Chapter II above.)

C. Unevenness of Direct Impact of Advertising: Segmentation and Saturation

1. Audience Segmentation and Saturation

Advertising literature introduces the marketing concept of "segmentation" whereby, rather than expending large resources trying to reach a heterogeneous market, the attempt is made to correlate advertising messages with population sectors sharing similar characteristics and consumption patterns. Such "segmentation" is a major focus of marketing research, a field which gained a scientific rigor in the 1960's and which now enjoys huge corporate and academic support.[8] Such research attempts to analyze personality to discover how to hold its attention for even a fraction of a second, while a persuasive element is presented (or technically planted on a subconscious level as in the case of "psychographics"). In "Media Approaches to Segmentation," Bruno, Hustad, and Pessemier state plainly:

> This paper examines an approach to marketing and media planning that classifies consumers into segments meaningful to the firms' overall communication strategy . . . . In particular, media analysts are interested in the qualities of each audience that reflect its relative potential for being influenced by selected offensive or defensive market communications -- the extent to which certain messages will be accepted, transmitted, and acted upon.[9]

Given the relevant audience measurements, the medium is chosen which most efficiently impacts a given sub-population, the message unit is scientifically constructed, and the adequate level of exposure or saturation is calculated.

It has been found in marketing research that only through repetition can an advertiser achieve the "advertising recall" necessary for successful impact.[10] Whereas Krugman[11] believes that three message exposures is adequate to break through the "system of discounts"[12] which filters out the vast majority of commercial information to which one is exposed, others believe that only through high levels of saturation can product recall at the time of product search be assured. Twedt feels that it is only with 15 exposures that the consumer consciously considers that he or she might possibly buy the product or service some day.[13] Because of this high number of exposures necessary to assure consumer awareness of a product and the high number of products being marketed at one time, it is no wonder that commercial media take the forms they do (as will be discussed), or that advertisers have resorted to "noise" and sexuality in order to vie for selective attention. Greenberg and Suttoni's article on "Television Commercial Wearout" offers hypotheses on how commercial unit saturation can be most efficiently achieved prior to diminishing returns to exposure.[14]

2. Social Abuse: Advertising Directed at Adolescents and Children

Segmentation and saturation have been apparently frequently abused. Several writers have observed that the two population segments least able to deal with persuasive advertising are children, who lack intellectual categories to discount various levels of untruth and persuasion, and adolescents (through young adulthood), whose bodies and psychic worlds are undergoing radical reorientation. The latter groups, as several writers have noted,[15] have been particularly vulnerable to segmentation, behavioral research, and subtle persuasion. Seeking smooth psychic transition from childhood to adulthood, America's affluent teenagers anxiously spend vast amounts to try to compensate for the lack of adequate ritual and symbolism in our society. Marketers know much of this anxiety and sexual frustration will find sublimation through consumption of products and oral gratification. To them, adolescence is a propitious time to introduce young people to arrays of adult products -- from cosmetics to liquor to motorcycles -- which they have not yet learned to "enjoy," or make use of for such purposes as status enhancement. Often promotion through free products accompanies such advertising. (Blackwell, Engel and Kollat[16] report on how a cosmetic firm uses interviewing and free product samples to encourage discussion of female beauty among young women.) Whereas Margolius[17] is shocked by the overt sexuality of advertising in the fashion and teenage magazines read or scanned by countless adolescent girls seeking to learn beauty and fashion hints, according to Key, the "psychographic techniques" of subliminal seduction are heavily applied to magazine advertising aimed at adolescents and young adults who are first choosing the products and brands which they will be likely to use throughout their adult lives.[18] At stake to marketers are millions of dollars in revenue. At stake to youth is stimulated sexuality and excessive consciousness of bodily beauty.

The other population segment singled out for heavy advertising expenditure are children under the age of twelve, a group which has itself been carefully analyzed by behavioral researchers into various subsegments. It has been estimated that the expenditure aimed at this segment is $600 million.[19] The impact of advertising on this segment has been receiving special attention, because the majority of this advertising is through television, whose long-term effects on learning and personality development are little understood. Preliminary findings are just now being compiled.

The Federal Trade Commission's greatest concern is that advertising impairs the nutrition and dental hygiene of children because children's television viewing (which is often higher than the national average of 4.5 hours a day) is highly saturated with advertisements for foods with high sugar content, especially sugar coated cereal, confections and soft drinks. It will be recalled from Chapter II that advertising of food and food products (primarily processed foods) accounts for 25% of total television advertising. This category in 1976 became the first billion dollar category (television expenditures reaching $1,002,535,300).[20] More recent data from the Television Bureau of Advertising revealed that last year's television advertising expenditures on confections and soft drinks amounted to $487 million, with soft drinks involving $175 million, second only to passenger car advertising.[21] $140 million was spent in 1976 for TV advertising of cereals -- the largest amount in the food group and sixth behind passenger cars, soft drinks, hair products, games, toys and hobby crafts, and pet food.[22]

The effects of cereal advertising on children's welfare became the center of major controversy early this year when the FTC, headed by Michael Pertschuk, opened public hearings on whether there should be an outright ban on all ads directed at particular segments of young viewers, or whether concurrent commercial messages supporting good nutritional practices and warning of dietary hazards of sugar should be required.[23] The food advertisers, including General Foods Corporation and General Mills Corporation which rank second and sixth in television advertising expenditure, and Kellogg Company which ranks twenty-second,[24] are reported to have begun a counter offensive to protect their advertising outlays by rebutting charges that their products are not nutritious and claiming that it should be parents rather than regulatory agencies who decide what advertising children view. The argument that parents are able to control their children's diet adequately by making purchase decisions is refuted in a study by a Harvard Business School researcher which found that 88% of mothers surveyed confessed that they yielded to a child's demands in buying cereal, and 40% yielded to their child's demands to buy candy.[25]

In his excellent article entitled "Children's Advertising," Pearce[26] analyzes in detail the expenditures the three major networks have made for children's advertising and notes that Congressional, Federal Communciations Commission, and public interest pressure (principally from Action for Children's Television) have, over the past five years, forced the National Association of Broadcasters and the three commercial networks to cut back on non-programming material (mostly commercials) in children's television from 16 minutes per hour in 1973 to 9.5 minutes per hour on weekends and 12 minutes per hour during the week (weekend advertising being reduced by over 40 %, and weekday advertising by 25%). Whereas broadcasters opposed these reductions, claiming their revenues would fall dramatically and children's advertising would become unprofitable, Pearce shows that sellers made up for revenue loss in their bidding for remaining available time. Pearce does feel that the economic and policy implications of an outright ban on certain advertising could be severe and might cause broadcasters to start cutting back on children's programming, filling it with economically less expensive programming such as reruns and old movies.

Preliminary research findings on children's television advertising viewing in a National Science Foundation sponsored study show that television advertising does influence children and is "at least moderately successful in creating positive attitudes toward, and the desire for, products advertised." It calls for further research and policy analysis into:

- Program-commercial separation
- Advertising format and audio/visual techniques
- Use of premiums

- Advertising volume and repetition
- Food advertising and consumer socialization
- Advertising and parent/child relations.[27]

D. Advertising's Impact on Broadcast Content and Form

1. Public Subsidy and Private Purpose

In his article "Television and State: The Public's Own Money Is Used to Sell Public Audiences to the Highest Bidder," George V. Gerbner,[28] Dean of the Annenberg School of Communication, University of Pennsylvania, discusses how commercial interests control the new, high-technology media -- especially radio and television. He describes how these advertising-supported media, through centralization, have come to control both "information flows" and the dissemination of popular culture in America. According to Gerbner,

> For most of human existence, public story telling was a handicraft process, conducted face to face and administered by a priestly or noble hierarchy. Payment for it was extracted in the form of a tribute or tithe and justified in terms of cosmic order. Tradition, memorization, incantation, and authoritative interpretation of scriptures ruled the day . . . . The industrial and electronic revolutions changed all that . . . . The old hierarchy gave way to the new corporate owners and governors of industrial society. Their power rests largely in their freedom to manage the industrialized process of story telling and to build mass markets for mass production through the mass distribution of symbols and advertising messages . . . . [Thus] advertisers replaced nobility, church and state as the patrons of the most popular of the arts, particularly radio and television.

According to Gerbner, the First Amendment to the Constitution has been used to protect the three major broadcasting networks -- which he calls "private governments" -- not only from governmental interference, but also from public control of programming which would allow citizens to rid television of the ideological advertising which they pay for in the price of goods and services. He quotes the high amounts networks charge for a minute of prime-time advertising (which averages $100,000 per commercial minute but rises to $250,000 during "special events") and feels that "[d]ivided by audience size, these astronomical prices add up to an attractive 'cost per thousand' (viewers) compared to more selective -- and selectively used -- forms of mass communication and advertising" and that:

> Advertising supported media create the bulk of popular culture. But their principal products -- the products

> they sell for profit -- are not culture; they are people, called audiences and sold to advertisers for a price.

He sees the public's own money (obtained in the "non-market" pricing of goods) used to sell public audiences to the highest bidder, to support corporate aims, sales, and powers. This is, according to Gerbner, facilitated in three principal ways:

> 1. All broadcasting stations are licensed by the Federal Communications Commission to operate the airways in the "public interest, convenience, and necessity" according to the law. In fact, they operate as businesses to make a profit, but the enormously profitable license to broadcast in the public domain is given away free of charge.
>
> 2. The advertising subsidy that supports and guides the cultural industry is extracted through a levy on the price of all advertised goods and services. Some call this private taxation without representation. The tax is hidden in the price of soap; I pay when I wash, not when I watch TV or read a magazine.
>
> 3. Congress made advertising a tax-deductible business, expense, subsidizes the postal rates of printed media, and provides certain advantages for "failing" newspapers.

He feels that without these direct contributions from the public treasury, "private" media would not be profitable, and probably could not exist at all. He looks favorably upon recent pressure to loosen the hold of large corporations and networks on popular culture transmission in that market mechanisms have not deliverd the quality and diversity of cultural services relevant to the many specific "sub-cultures" which make up a total community. Gerbner concludes that a broadening and democratization of popular culture production would have the additional advantages of "not selling the same fears, hopes and styles of life to practically all of the people, practically all of the time." It is relevant to point out that FTC chairman Michael Pertschuk, in a year-end statement, characterized 1977 as a "year of transition" in which the FTC and the courts made continued efforts to clarify the relationship of First Amendment protection to FTC's mandate to prevent unfair or deceptive advertising.[29]

It was reported last fall, in an article entitled "Critical Mass Not Yet in Sight for Paramount's Fourth Network," that

> Paramount Television Distributors has pushed back the start date of its fourth network project, claiming that commercial time on the other three isn't yet scarce enough to spin off full advertiser support for its weekly prime time service.[30]

The level of network television programming is strictly controlled by the needs of advertisers, and a whole new network would be started to carry old movies, reruns, and low-cost programming -- all to air the abundance of commercial messages deemed expedient for corporate purposes. Further, it will be recalled from the end of Chapter I that advertising sponsorship of the commercial media and corporate sponsorship of "public" media has in some cases constrained the efforts of effective consumer research and education programs.

2. Advertising's Impact on Television Style and Content

In an excellent and highly controversial book on television's effects on personality and culture, ex-advertising executive Jerry Mander discusses from his own experience how advertising techniques have greatly affected the style and content of both televised information and commercial programming.[31] He believes that there is a radical difference between commercial messages which try to pack excitement, persuasion and product information into extremely short time periods, and slower more discursive forms of communication. He develops the notion of advertising as "hyperactive information"[32] which has radically changed the content of both news reporting and popular-culture communication forms.

Because the advertising which interrupts the progression of news reporting and commercial programming is constructed to be loud, visually stimulating and exciting in order to catch the selective attention of the viewer, programming must imitate this quality in order not to appear slow-moving and bland. Thus, according to Mander, objective news reporting has been suborned by attempts to create excitement and to highlight "peak" instances of human drama. The slow, analytic unfolding of complex events or ideas or feelings in instances both of national news and cultural programming. Mander traces this "hyperactivity" to attention-holding techniques first developed by advertising, and known as "technologies of fixation."[33] Since advertising itself is known to contain an informational/persuasive content in which the viewer is probably not interested, the advertiser must focus on technical events, rather than content, to hold the viewer's attention while the product image is being implanted in the viewer's mind. These technical events include cuts, edits, zooms and the use of aids, such as charts or cartoons. Whereas it is the advertiser's craft to pack as many of these technical events into a minute of advertising (he estimates 20-30 per minute), Mander finds these same technical events to have become a mark of commercial programming. He finds that in the average commercial television program, there are eight to ten technical events per minute; that is, the flow of natural imagery is repeatedly interrupted to make it perceptually stimulating enough to sustain attention between advertising segments, where the rate is much higher.[34]

According to Mander, television, as an advertising-supported medium, has become more concerned with perceptual and psychological stimulation through technical events than with high-quality cultural service. Commercial programming cannot be made too interesting or moving, or the viewer would be forced to think and would quickly become appalled by the absurdity and pollution of frequent commercial interruption.

The National Cable Television Association, in a report called "Pay Cablecasting and Consumer Choice," shows how advertising-supported television destroys the nature and quality of the 20th century's greatest art from, the motion picture. Whereas in true market fashion, a movie is produced and then distributed to locations where an admission price is charged; with present advertising-supported broadcasting arrangements the movie is shown ostensibly free over television, yet it is divided into many segments by advertising, destroying its continuity. According to the report, when presented on television, one movie, originally 138 minutes, was cut over 22 minutes and was interrupted by 53 commercials and other interruptions.[35]

The form, which television programs have assumed under advertising "patronage" and the political and cultural influence it engenders, has solicited the following statement from the Librarian of Congress, Daniel J. Boorstin, in dedicating the National Humanities Center at Research Triangle Park, North Carolina:

> Just as earlier Americans showed the courage to declare their independence of political powers which limited their opportunities and infringed their freedoms, so we must declare our independence of the newly overwhelming Television Powers . . . . Among our grievances we might, in Jeffersonian style, affirm that the Television Powers subject us to a jurisdiction foreign to our Constitution and unacknowledged by our laws: pretending to have our assent to their acts of pretended popular preference; invading our homes with unwanted, unneeded, and sometimes disgusting, disruptive and destructive messages, commercial and otherwise; imposing taxes on us, included in the price of everything we purchase, through the addition of commercial, political and other messages for which we must pay without our consent; acting the unwitting ally of highjackers and charlatans; the willing tout of celebrities and pseudo-celebrities, kooks and cranks; dominating and polluting our experience, and attempting to substitute Television Experiences for all others.[36]

The Mander book makes many very relevant points which could not be touched upon here concerning advertisers' manipulation of television media for their ends and on television's impact on learning processes and human interrelations.

E. Advertising's Impact on Political Values

1. Corporate Advocacy

Advertising expenditure is today used not just to sell products and enhance corporate reputation, but also to try to influence the

American public on political and economic issues. Recently, (approximately since 1974) large corporations have been supplementing normal commercial and institutional advertising expenditures with an advertising campaign that claims to be commenting objectively on issues of government and business policy and providing for "economic education." Such advertising has been called "corporate advocacy advertising" by the Wall Street Journal, and has been carried out both by individual corporate giants, such as oil companies and private electrical utilities, and by advertising trade associations, such as the Advertising Council, Inc. It first appeared in the wake of wide-spread public dissatisfaction with U.S. business following investigations of corporate bribery and corruption here and abroad, but currently it has attempted to capitalize on public dissatisfaction with the performance of Washington legislators and regulators on issues of environment, energy, and taxation. In one of the few analyses of this new advertising phenomenon, Byron Dorgan, Tax Commissioner of North Dakota, finds that most of this advertisng is addressed to the following issues:

1. Relaxation of laws for clean air standards.
2. Development of coal as an energy source.
3. Deregulating the price of oil products.
4. Granting tax incentives to the energy industry.
5. Criticizing government required clean air devices on coal burning energy plants.
6. Lobbying for auto emission standard changes.[37]

A more recent survey of the corporate advocacy advertising appearing daily in the Wall Street Journal shows the new focus to be the issue of government regulation itself. Much of this advertising is packaged in direct language designed to influence the American public and, thereby, national policies. In some cases the advertisement appeals to the reader to exercise his/her political will directly by pressuring his/her Congressperson, or by writing to a department or agency. Often this advertising claims to be serving the public interest, though in fact the positions advocated are often in the interest of corporate management and stockholders alone, and in direct conflict with the public interest as represented by disinterested sources.

Perhaps the most common example of this advertising is that carried out by the oil companies, especially Mobil and Standard Oil, to support their own lobbying for oil price deregulation (without any recapture of windfall profits). Some of this advertising focuses directly on the oil issue and includes humorous cartoons along with a simplistic appeal for economic "rationality," while others, such as Standard Oil Company's widely distributed two-page ad, "It's a Great System (Pass It On),"[38] gratuitously provides the reader with Standard's own description of how the

U.S. economy works through a simplistic survey of the role of business, profits and the market system.

Along the same lines are the more detailed "consumer/citizen education" materials put out by the Better Business Bureau (Consumer Information Series) and the Advertising Council. The latter's free 24-page booklet entitled "The American Economic System . . . and Your Part in It"[39] was the center of the Ad Council's campaign to "educate" Americans about economic realities. According to the Ad Council's Economic Communicator, the Council's booklet announcements had been shown or announced over 300 television stations and 1,000 radio stations reaching over 90 million people, and printed in over 600 daily and weekly papers reaching over 30 million.[40] Announcement of these booklets also appears in public spaces, such as buses or billboards, and on public trash receptacles. During the first phase of the Ad Council campaign (ending January 1977) 2.2 million copies of the booklet had been distributed.

The Advertising Council claims to be the biggest advertiser in the world and claims to generate almost $600 million worth of "public service" advertisng (advertisers, advertising agencies, and the media contribute the space and time) on a corporate-donated budget of $914,683.[41]

2. Counter-Corporate Advertising

In the wake of this massive corporate campaign to persuade the public of corporate legitimacy and responsibility and to blame recent economic problems on government policy and regulation, there has appeared the countervailing force of "counter-corporate advertising" which seeks to define the "public interest" in questions of government/business policy more justly. One group, Americans for a Working Economy, composed of prominent labor, environmental, consumer and church groups[42] is working with the San Francisco based Public Media Center to create TV and radio messages refuting the claims of corporate advertising. The group has prepared a booklet, "A Working Economy for Americans," to counter the policy recommendations of the Better Business Bureau's and Ad Council's booklets.

Tax Commissioner Dorgan doesn't question the right under law for corporations to engage in this type of advertising, but does question their right to write off such advertising as a business expense for income tax purposes, citing the Federal Income Tax Regulations and court cases. According to Dorgan:

> At first glance, one might think that this issue is inconsequential. Unfortunately, the type of subtle lobbying and subtle political advertising that we read about and hear about is playing an important role in the decisions that are being made in this country.
>
> The price of gasoline, the amount of air pollution, the availability of energy -- all of these issues and many more are being influenced by the huge sums of money spent on this type of advertising by these corporations.

Again, there is nothing illegal about this type of advertising, but it should not be deducted for tax purposes. If, for example, a corporation that is paying a 35% effective income tax deducts this advertising from its taxable income, then it is only paying 65¢ on every dollar for these advertisements. The other 35¢ comes from lost revenue to government or, in other words, from all other taxpayers.[43]

3. Corporate Political Advertising and the Individual

The power of corporate political advertising is indicated in the following case. On January 4 of this year, economist and political scientist Charles E. Lindblom wrote an editorial in the New York Times in which he stated the opinion that businessmen hold disproportionate power in our society, and that this was a flaw in American democracy. Mobil Oil subsequently bought advertising space in which it placed a non-commercial political message attacking and misinterpreting Lindblom's statement of opinion. According to Lindblom's "Letter to the Editor" in the New York Times of February 24, 1978:

> When I suggested that some features of society are so basic that they cannot be changed except by drastic alteration of the system, Mobil construed that as advocating -- if I get their drift -- revolution. Because I developed an argument they do not like, they charged that I am "forcing" my opinion on others. When I wrote that "reforms can improve man's condition," Mobil inexplicably translated that into the statement that I belielve that reforms are "essentially meaningless. And so on.
>
> My core argument, with which Mobil did not choose to contend, is that for certain specific reasons businessmen enjoy disproportionate power -- unavoidably so in our kind of society. Hence business power constitutes a flaw in American democracy, which we all know is in any case not perfect.
>
> . . .The issue is there and needs attention, as some businessmen themselves acknowledge. Indeed, by buying space to attack me and in its freedom to say what it wishes in its ad, Mobil illustrates one of the disproportionate powers of business, as well as the way some businesses use it. The issue may grow in importance if energy and environmental problems continue to nudge people toward asking increasingly fundamental questions about business and its responsibilities.
>
> It may be a feeling of invaded prerogative that tempts some businessmen to respond imperiously to challenges to opinions they have come to accept as established truth -- as though taking it upon themselves to draw the line that public discussion must not cross.

America's system of individual rights and safeguards has been predicated on the tenet of "free speech," in which a citizen is free from governmental power and intimidation in voicing his political beliefs. Through corporate political advertising such as this, it would appear that, unless checked, the "private governments" of large corporations have gained an immensely powerful channel through which to propagate their economic beliefs and to attempt to intimidate dissension. Such advertising, through saturation, biased information and simplistic appeal to rationality could have an enormous impact on consumer political values unless checked by vigilance and disinterested consumer education on the larger economic issues.

F. Advertising's Effect on Social Change and Aspiration: Sub-Culture Theory

Several years ago there was a great emphasis on what was known in various fields as the "sub-culture" theory. According to this theory, it was no longer acceptable to view American society and culture as homogeneous or as a "melting pot" where all ethnic differences were to be annulled. Rather, America was to be viewed as a dynamic system in which a "dominant" culture interacted with various "sub-cultures." In attempting to secure social justice for initially one of these "sub-cultures," the blacks, analysis was turned to whether this population sector was suffering from economic exploitation at the hands of better educated and wealthier white marketers. At the time, interest focused on D. Caplovitz's book The Poor Pay More[44] which argued that black consumers were being taken advantage of through their lack of consumer skills, in such areas as comparative price, warranties and guarantees, and terms of credit. Since that time, the dramatic change in the values of the dominant culture toward the blacks and the rise of legal protection and redress have abated any widespread advertising attempts to exploit lack of consuming skills of this minority. This by no means implies that exploitation of disadvantaged does not continue or that native Americans and other ethnic Americans are unaffected by continuing racism and prejudice in many areas.

Whereas local advertising is assumed to continue to mislead the undereducated of all races, national advertising can be seen as working against the social interests of blacks and other minorities -- typically low-income groups -- by tempting them to follow consumption patterns which they cannot well afford. Also, whereas marketers have assented to the integration of modeling in national advertising (there is much literature available on this topic), there has been no attempt to present other than stereotyped, "dominant culture" living and consumption patterns. Overall, advertising, and especially TV advertising, continues to present a very limited view of American society. The cultural setting of advertising does not reflect the pluralism of the American nation, but focuses primarily on one aspect of American culture, typically that of the white suburban middle-income, middle-class family. What we see are the clothing, home furnishings and patterns of leisure and recreation of the typically young and successful.

Advertising and broadcasting have taken one highly materialistic concept of "American life" and superimposed it upon a greater, much more diverse reality. In so doing, a large division has been fostered between the cultural patterns of those minority members who have adopted practices of the dominant culture and whose incomes equal or approach those of their majority counterparts, and those minority members who have not been able to achieve such income levels or have chosen not to adopt dominant culture practices. Advertisers ignore the fact that aspirations of many members of the "sub-cultures" include not only economic advance, but also the quest for integrity, and that ethnic integrity requires not only tokenism in advertising modeling, or a sterotyped view of ethnic life, but rather a deeper presentation and understanding of unique cultural and value systems.

IV. IMPLICATIONS FOR CONSUMER EDUCATION

A. General

Advertising's pervasive role in the economy makes it a candidate for extensive treatment in consumer education. Advertising is a major factor in:

- how consumers make their basic economic choices
- how the market system works
- the basic evaluation of the ability of the market system to serve consumers and society as a whole.

Especially in its function of providing commercial information, advertising is, itself, an important form of consumer education. For these reasons, we conclude that consumer education, whether in school or through less formal channels, should make consumers aware of all the issues covered in this report. Here, for emphasis, we identify some of the highlights.

In broadest terms, consumer education should increase consumers' understanding of advertising, indicate ways of reacting to it in making their deicisons and in affecting advertising in their own and in the general public interest. More specifically, it seems appropriate that consumer education should make consumers aware of:

- the role of information in the full range of consumers' economic decisions,
- the nature and purpose of advertising and its social and economic advantages and disadvantages,
- the effects of advertising on
  - consumers
  - industry
  - the market structure and system,
- the ways in which consumers can cope with the negative influences of advertising.

To accomplish these objectives, consumer education must make consumers sensitive and critical towards advertising messages and encourage them to be efficient in obtaining and using information. At the same time, it should be emphasized that advertising is not static, and advertisers will seek to adjust their techniques to increases in consumer sophistication.

B. The Role of Information

- ° Consumers need information and the opportunity to make independent and rational choices among goods and services, between saving and consuming, between work and leisure, and, hence, in life-style. According to the whole intellectual structure that justifies the free market economy, without adequate, unbiased information about these choices, consumers can act neither in their own nor in society's best interest, nor can markets function properly.

- ° Consumers face a serious information problem:
  - -- society is rapidly changing;
  - -- incomes are rising, increasing the level and range of demand for goods and services;
  - -- there is greater complexity in the technical character of goods and even in some services and in financial arrangements;
  - -- access to reliable personal sources of information is reduced;
  - -- obtaining and using ("processing") information takes time, and wise, efficient use of time is essential to consumers' well-being in all dimensions of life.

- ° Some advertising provides the necessary "commercial information," but advertising in general does much besides.

C. Nature and Purpose of Advertising, Its Pros and Cons

- ° Advertising is a part of a wide range of promotional activities practiced in varying degrees and forms by American industry. Other forms of promotional activities include:
  - -- physical product differentiation
  - -- packaging
  - -- styling.

Much of what needs to be disseminated about advertising applies to some of the other forms of promotional activity, but the details may differ substantially and are not covered here.

- ° The economic and social contribution of advertising derives from its provision of information that is potentially useful to consumers in making decisions. Particularly information as to price, quality, availability of goods, or services, the the conditions under which they are sold (warrantees, financing, for example). Examples of kinds of advertising that provide relatively large amounts of such "commercial" information are local retail advertisements, much newspaper advertising, most classified ads, professional service ads (e.g., physicians' and lawyers' fees).

The consequences of the lack of such advertising are obvious in professional service fields where business "ethics" used to preclude such advertising.

- Although some advertising provides information that is of value to consumers, it is provided to serve the interests of sellers and serves the interest of consumers only incidentally. Further, some of it is misinformation and virtually all of it is highly selective, covering only goods or services sellers think are amenable to advertising and providing predominantly favorable information.
- In addition to valid commercial information, advertising consists of many other components:
  - -- Persuasion
  - -- Goodwill/reminders
  - -- Misinformation and obfuscation
  - -- Entertainment
  - -- "Institutional advertising"
  - -- Political/ideological promotion.
- Advertising is costly and pervasive.
  - -- Direct costs run to tens of billions of dollars annually;
  - -- Both the informational and social/ideological aspects of advertising are paid for by consumers through the additional price of goods and from the public treasury in tax revenue lost, because advertising is treated as a deductible business expenditure;
  - -- The advertising industry is large and ubiquitous;
  - -- It exercises considerable control over the media, influencing its style, ideology and content.

D. Effects

Advertising affects consumers directly and indirectly, through its effects both on industry structure and activity and on society in general.

1. Advertising and Consumers

Some advertising is important in providing commercial information. However, because of its non-information content, advertising fails to meet consumers' need for information in their complex, highly technological environment, and therefore it hinders rational decision making.

Indirect costs of advertising are losses to consumers and society as a whole resulting from the effect of advertising on the distribution of societal resources. Possible results of these allocations include the following:

- Redistribution of consumers' resources, including time, from non-market goods and services to those sold through the market;
- Emphasis on present consumption rather than saving (future consumption) or leisure.

2. Industrial Effects

- The direct,apparently intended, effects of advertising permeate the production and distributional activities of industry including encouraging shifting of demand for goods between brands within industries and between kinds of commodities, i.e., between industries. Thus, advertising influences which industries grow and which decline or stagnate.

- Advertising, especially in combination with other forms of product differentiation, appears to contribute to the oligopolistic structure and limited competition that characterize much of American industry. Oligopoly and monopoly tend to restrict the range of genuine choice available to consumers and to increase costs of production, price and profits relative to what they would be in free competitive markets.

3. Social Impacts

Advertising has major wide-spread social impacts:

- It works to change individuals' basic preferences in the interest of producers.

- It encourages preference for market over non-market goods and services, consumption ove r saving, and consumption -- and hence income -- over leisure, market oriented use of leisure versus more individually creative leisure.

- Advertising persuasion and entertainment encourage consumption while discouraging rationality; the discriminating analyticial frame of mind needed to make choices in one's own and society's best interests is undermined as advertising encourages the consumer to be a passive recipient of commercial stimuli, rather than an active chooser.

- The result of such changes in values is a tendency to shift (at least marginally) from public goods, such as education and public recreational facilities , to goods produced by the private sector.

- Successful non-informative advertising is itself a threat to the free enterprise system. It impairs the complete fulfilling of the market system's legitimate social role. Such advertising violates the conditions underlying the intellectual justification of the private enterprise system.

- Political advertising presumably supplements industrial lobbying to influence political decisions in the advertisers' interest.

- By virtue of its dominant role in financing the media, advertising largely shapes the information world through which political decisions are made.

E. Coping with Problems Raised by Advertising

Obviously an important part of both formal and informal consumer education is learning about how to seek and use information; any general discussion of that lies outside the scope of the present work. However, a number of suggestions about how to deal with the somewhat narrower problems created by advertising follow from our study.

- It seems obvious that a major thrust of consumer education concerning advertising should be to develop a healthy skepticism and, specifically, an ability to screen out all but the informational content of advertising.

- An important method of making consumers aware of the nature of advertising and its impacts would appear to be to incorporate into consumer education exercises in the analysis and evaluation of samples of advertisements in light of the economically justified goals of advertising and in light of the taxonomy of advertising content indicated above.

In addition, the following should be covered:

- Alternative information. Because of the failure of many forms of advertising to provide consumers with adequate amounts of information concerning product quality, and comparisons, terms of service, comparable price and guarantee and warranty information, consumers must often seek this information from alternative sources. Such sources include product-rating periodicals, libraries maintaining information and evaluative materials, public consumer agencies at the federal, state, and local levels, buying clubs and credit unions, and disinterested television and newspaper sources.

- Additional information. Consumers need information about goods and services which are not advertised, notably non-market and non-materialistic opportunities for personal growth and fulfillment. They will then be in a better psoition to evaluate the nature of their needs and wants, to determine what levels of consumption are in their own and society's best interests, and to appreciate more clearly the ecological and value impacts of a consumer culture.

- Consumer action:
  - -- Counter-advertising. Consumers should be made aware of fair-time broadcasting policies allowing consumer groups access to the media to answer political messages propagated through corporate advocacy advertising. They should further

be made aware of the efforts of groups such as Americans for a Working Economy and the Public Media Center in San Francisco to provide disinterested non-curricular consumer education.

-- Regulation (corrective advertising). Consumers should be made aware of an encouraged to support the efforts of government agencies attempting to protect the public through truth in advertising and truth in lending laws. They should be encouraged to support strongly "corrective advertising" policies requiring companies found guilty of providing false or misleading information to buy advertiisng space stating that their product or service claims were not true.

° Consumers should at the same time be made aware of the severe limitations of governmental regulation as it is practiced, and of the fact that they cannot count on it to assure reliability of information and certainly to insist that only information -- to say nothing of only relevant information -- is provided in advertising.

° Financing

-- For consumers to have effective redress, some mechanisms need to be established for funding them. Various ideas such as a small sales or revenue tax, e.g., one mill per dollar of sales, might be levied to finance consumer involvement in regulation of advertising, to finance public interest or counter advertising. These are areas that it would be well to explore.

-- There is a corresponding question about the present financing of advertising: typically, one half from the public treasury, ie.e., the taxpayers.

-- At least equlaly important is the question of finding alternative ways of financing the media in significant part to reduce the pressures for the gratuitous affirmation of social and political postures compatible with the interests of advertisers.

F. Conclusion

It is important to recognize that, even given full information and understanding of the issues involved, consumers may or may not make the same choices. We cannot prejudge what the outcome will be, but it is the function of consumer education to ensure that consumers are aware of the range of choices; that they go beyond questions of which products they are to buy to consider allocations of time and effort between alternative pursuits. In this way, consumers make general life-style choices.

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